Finance Committee Handbook

ASSOCIATION OF TOWN FINANCE COMMITTEES

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Association of
Town Finance Committees

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ATFC Mission Statement

Town Meeting is a centuries-old practice, but yet a modern forum for local government legislation in New England. A local Finance Committee, by tradition and statute, is a select group of citizens that advise each Town Meeting on the probity, practicality and value of any of the matters before the meeting. The Association of Town Finance Committees is a statewide Massachusetts organization dedicated to enhancing the role of finance committees in local government through professional standards, education programs and inter-Town networking.

The ATFC maintains and publishes The Finance Committee Handbook, organizes several annual educational and professional meetings for finance committee members, and provides, through its affiliation with the Massachusetts Municipal Association, an avenue for member towns and their committee members to influence state government policy that affects local cities and towns. The ATFC Board is the elected body chartered with implementing the mission of the ATFC for its membership, in association with MMA staff.

Foreword

The Association of Town Finance Committees (ATFC) is pleased to present this updated Finance Committee Handbook. This handbook is written for both new and veteran finance and capital planning committee members.

This handbook is a compilation of efforts of a fine group of volunteers like yourself. Experts in municipal law and finance, including accountants, auditors, treasurers, finance directors, administrators, attorneys, educators, bankers, state officials and finance committee members, have freely given of their time, knowledge and experience to write this updated reference book. It is our hope that this handbook will help you as you assist your towns. We very much want to hear your comments and suggestions for the future.

Respectfully,

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The Role of the Finance Committee

The ATFC has received many calls involving the duties and power of the finance committee. These inquiries have usually been instigated by clashes with the select board or town administrator, who are often becoming more assertive in claiming a role, or even asserting sole responsibility, in presenting the operating budget to town meeting. This preface will duplicate parts of the following chapters, but I feel it important to bring together key elements of this issue.

This preface will summarize this "discussion" into the broader framework of the division of powers within local government. I see this division of powers as comparable to that at the state and federal government. The select board and town manager/administrator/executive secretary are part of the executive branch of government. It is their job to collect budget information, develop budget priorities and formulate a balanced budget, the same as a president or governor.

Once developed, that budget is presented to the finance committee, representing the legislative branch, the town meeting. In effect, the local finance committee has the same role as the House Ways and Means Committee in the State Legislature. It is the finance committee's responsibility to receive the budgets from the executive branch (either as a collective whole or individually by department), analyze them, have hearings where the department heads and the public can testify, and present a balanced budget to town meeting. That budget should reflect the finance committee's decisions based upon their best judgement of the issues and finances of the town. The budget before town meeting is the finance committee's and it is their job to explain and defend it. This does not preclude department heads or the town administrator, if any, from being called upon to answer questions or explain items in more detail, but it is the finance committee's budget.

If the select board or town administrator disagrees with any item, they can submit a substitute motion, as is the right of any participant at town meeting. At this stage, the select board have an advantage over a governor in that they can participate in the town meeting process. However, they have the disadvantage of not being able to veto what town meeting passes.

The statutory backing for this analysis is Chapter 39, Section 16, of the Massachusetts General Laws. It states:

> "Every town…shall…by by-law provide for the election or the appointment and duties of appropriation, advisory or finance committees, who shall consider any or all municipal questions for the purpose of making reports or recommendations to the town…".

"Town" means town meeting. Section 16, quoted above, is contained within the "Town meeting" section of Chapter 39 between two sections on the town moderator. Most finance committees are appointed by the town moderator, an official of the legislative body, town meeting.

Section 16 goes on to read:

> "In every town having a committee appointed under authority of this section, such committee, or the selectmen if authorized by a by-law of the town, and, in any town not having such a committee, the selectmen, shall submit a budget at the annual town meeting"

In other words, unless no finance committee exists, or a by-law or charter of the town specifically authorizes the selectmen to submit the budget, the budget shall be submitted by the finance committee.

The Department of Revenue, Division of Local Services, reinforces this with an "In Our Opinion" 93-310 issued on April 27, 1993 titled

"Role of Finance Committees and Boards of Selectmen in Budget Preparation and Submission to Town Meetings

A board of selectmen in a town with an elected or appointed finance committee has no statutory role in the preparation and submission of the annual budget, unless it is expressly given a role by by-law. If not, the finance committee is responsible for preparing, submitting and distributing the budget under G.L. Ch. 39 S16 and Ch. 41 S59 and S60."

This does not mean the finance committee should have an adversarial relationship with the select board or town administrator. In fact, the finance committee should develop a good working relationship with both. By being open to suggestions and other opinions and working out compromises on key issues, the finance committee can be more effective in presenting its recommendations to town meeting. When compromises cannot be made, the issues should be narrowed to provide town meeting with a clear choice.

Obviously, the content of the town by-laws, as well as the Home Rule Charter if applicable, are critical elements in the role of the finance committee. They often spell out the details of the budget process and the role and powers of the finance committee. Committee members should read these laws very carefully and be vigilant of attempts to bypass their critical function of providing independent and carefully considered advice to the town meeting.

Without finance committee independent review, the town meeting would be at a severe handicap in voting on financial matters when all of the recommendations are coming from one source. Separation of powers was designed by our founding fathers for a reason—**Defend It.**

Respectfully,

Allan Tosti,
Member, Arlington Finance Committee
Treasurer, ATFC
Editor, Finance Committee Handbook

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CHAPTER 1: Towns and Town Government

Introduction

Towns in Massachusetts originated from the earliest settlements in our country. The Pilgrims came to Massachusetts Bay in the early seventeenth century, and the meetings and decisions of the men in these settlements developed over time into the formal legislative body known later as town meeting. As issues became somewhat more complex and the settlers became preoccupied with other life sustaining pursuits, a few Freemen were "selected" to make necessary decisions between town meetings (these individuals later became known as selectmen). Other town positions and responsibilities also evolved from the very character of colonial settlement life. In addition to selectmen, the positions of constable, pound keeper and fence viewer were prominent in the early Massachusetts town governments.

Over 200 towns were officially settled prior to the adoption of the Massachusetts Constitution of 1780. Curiously, no mention was specifically made of towns in the Constitution. However, in 1785, the Massachusetts General Court formally confirmed the boundary lines of every town in the Commonwealth. The legislature also determined that these towns should continue to be corporate bodies, retaining all powers they had exercised until that time, and subject to all duties for which they had previously been liable. It was not until 1821 that towns became populated enough to merit the consideration of a separate form of government. In that year, Boston became a city. Today, 295 of the 351 municipalities remain incorporated as towns, retaining the basic institutions of selectmen and town meeting that were created over three centuries ago.

Organization and Authority of Towns

Massachusetts' local governments exist at the discretion of the Massachusetts state government. The legislature has the authority to incorporate or dissolve cities and towns as corporate entities and to merge or consolidate them. In the United States, political subdivisions of states have never been considered sovereign entities, but rather as subordinate instrumentalities created by the states. These municipalities (and counties) assist the states in carrying out their governmental functions. The Home Rule Amendment passed by the Massachusetts General Court in 1966 recognized the long standing tradition of independent towns, formally granting municipalities the right of self-government in local affairs. Article 9 of the Articles of Amendment of the State Constitution and the Home Rule Procedures Act (Chapter 43B M.G.L) granted cities and towns the authority to adopt, amend or repeal local charters, ordinances or bylaws and to exercise any power or function which the General Court has power to confer upon them so long as that authority is not inconsistent with the constitution or laws enacted by the Massachusetts Legislature.

While most towns possess a select board (or in towns that have not adopted the more modern name, a select board) and a town meeting, the differences in the organizational structure of towns vary widely. A patchwork of state laws exist that enable towns to create various official positions and bodies to carry out governmental functions. In recent years, the need for towns to function in a highly complex setting under intense fiscal constraints has resulted in a reduction in the role of part-time elected or appointed bodies. Full-time professional administrators and department managers are now widely used in Massachusetts local government.

Despite the variations in organizational structure throughout town government, there are three essential organizational forms:

- decentralized, with limited authority delegated by the select board to professional staff or in some cases an executive secretary;
- moderately centralized, with legal authority delegated by the select board to a town administrator or executive secretary; and
- highly centralized, with legal authority vested in a town manager or town administrator.

Operation of Present Day Towns

Today, the operation of municipal government is not unlike a large enterprise providing services to its clients. A town must deal with labor issues, technological advances in computers and communications, investments and financial controls, as well as maintenance and replacement of its capital assets. Towns must also accomplish all of this under the scrutiny of the public.

Residents may be compared to a business' stockholders. In many towns, resident participation is actively sought. The open meeting and freedom of information laws, combined with an aggressive local print media, cable television public access, internet blogs, internet discussion lists, and social media platforms (with formal town accounts or informal citizen-moderated ones) make the workings of local government widely accessible. In addition, most local governments are regulated in some way by the federal and/or state government. As a result, municipal governments tend to be "public" in every sense of the word.

In all towns, a town meeting convenes each spring to appropriate funds and consider all local bylaws. As local government has become more complex, larger towns have adopted a representative form of town meeting, with members elected by precinct or district. No matter what form of local government a municipality utilizes, its citizens are an essential part of the organization, serving as the town's legislative body and/or on various advisory or regulatory boards (some "towns" are essentially cities operating with a mayor or manager and council).

Public education has always dominated the priorities and resources of Massachusetts' towns. All towns also regulate uses of land, construction of buildings, preparation and sale of food, and parking and traffic on their roadways. Other basic programs and services include roads, waste disposal, water and sewer, police and fire protection, emergency medical services, libraries and cemeteries. Many towns also provide comprehensive recreational and social services.

The Structure of Town Government

It is unlikely that any two Massachusetts town governments have identical organizational structures. This is because towns evolve unique values, needs and expectations regarding local government and its services. Further, state law allows towns to tailor the components of their organization to their own particular needs. It is also worth noting that the variety of structural options available to municipalities was greatly expanded in 1966, when as noted above Massachusetts adopted the Home Rule Amendment to the state constitution, granting new powers of self-determination to cities and towns.

In all three organizational models sketched above, complete legislative authority rests with town meeting. Regardless of the degree to which a town centralizes or decentralizes its structure, there will continue to be a number of independently elected officials, boards, and commissions. Chapter 41, Section 1B and Chapter 39 Section 14 M.G.L. require that the select board and the school committee be elected directly. The select board typically retains the authority for certain appointments, such as board of appeals, historic district commissions, commissioners of trust funds and various ad hoc committees. Even in the most highly centralized municipal governments, there is a tendency to directly elect other boards and commissions, e.g. planning boards and housing authorities.

Ultimately each town has the discretion to create an organization that reflects its history, traditions, values and needs. Regardless of the regulative model chosen, it is important to realize that governmental management — both today and in the future — requires the presence of some form of professional management.

Town Charters

Since the adoption of the Home Rule Amendment to the Massachusetts Constitution, towns have exercised their right to self-government in formulating their administrative structure. This amendment has allowed towns to adopt their own formal charter, which is a local government's constitution, or an informal charter, otherwise known as a legal base. Each structural package governs how a given town operates.

A charter may set forth a municipality's type of legislative body, determine which officials are elected and appointed, alter the distribution of powers and responsibilities among local offices, and establish procedures for the operation of town government. Town charters that provide for a different allocation of duties and responsibilities are deemed consistent with "the provisions of any law relating to the structure of city and town government." See Chapter 43B Section 20 M.G.L. A legal base provides the same outline of a town's government, but does so through a compilation of administrative bylaws, special acts and accepted state statutes.

Legislative Authority

The legislative authority of a town rests with town meeting. Several towns have adopted charters creating town councils as their legislative bodies, in effect becoming cities. Most towns in Massachusetts have open town meetings, which allow all registered voters in the community to take part in the law-making process. Other communities have representative town meetings, in which voters elect town meeting members by district or precinct to represent them. Although the right to vote at representative town meeting is reserved for elected members, citizens retain the right to address an elected town meeting upon recognition of the moderator. It should be noted that only towns having a population of greater than 6,000 can adopt a representative town meeting (Chapter 43A M.G.L and Article II Constitution).

Regardless of the type of legislative body, all towns possess some authority to institute bylaws and to raise and appropriate funds. State statute requires a town to hold at least one annual town meeting each year. The annual town meeting must be held in February, March, April or May unless otherwise stated by a special act or the town's charter. All municipalities must hold an annual town meeting prior to June 30 (Chapter 39 M.G.L.).

In addition to their annual town meeting, towns may hold special town meetings as needed. Special town meetings may be called at any time either by the select board on their own, or upon receipt of a petition signed by 200 voters or one tenth of the registered voters, whichever is less. The meeting must be called within 45 days of the select board's receipt of a valid petition.

Both annual and special town meetings are called by a warrant. The warrant is usually issued by the select board and states the time, place and business (articles) for the meeting. Annual town meeting warrants must be issued seven days prior to the meeting. Warrants for special town meetings must be issued 14 days prior to the meeting. Articles for annual town meeting can be placed on a warrant by the select board or by a petition signed by at least 10 registered voters of the community. Special town meeting articles can be placed on the warrant by the select board or by a petition signed by at least 10 percent of the town's registered voters or 100 registered voters, whichever is less. This can be modified by town charter or special acts of the State Legislature. It is left to each town to determine how the public is notified. Towns must publicly disseminate the warrant, though their charters or bylaws may specify different means for doing so; methods include posting the warrant in several public places (including the town website), mailing printed copies to voters, publishing it in the local newspaper, or a combination of methods. Each warrant article is voted upon separately by members of the legislative body. Town meeting can take action only upon subject matter contained within an article.

The moderator presides over town meetings. The moderator is either elected for a term of one or three years, or is elected by town meeting as its first order of business.

The legislative body of a town has the following major functions:

- raise and appropriate funds;
- enact bylaws; and
- accept state statutes.

Although action is not limited to these three items, most votes by a town's legislative body relate to these areas.

Bylaws are the municipal equivalent of laws. They can be adopted only by a vote of the municipal legislative body. Once a bylaw is adopted, it can be repealed or revised in the same manner. The town clerk must submit all adopted bylaws to the Attorney General's office for review within 30 days of a bylaw's passage. If the attorney general does not "act" on a bylaw within 90 days, it automatically becomes law.

Typically, there are three types of bylaws:

- administrative bylaws, which regulate the government, organization and procedure of town business, and the conduct of citizens;
- zoning bylaws, which regulate the use of land; and
- personnel bylaws, which regulate administration and conduct of town employees, including pay and job classification.

In addition to bylaws, the operation and administration of a town can be affected by federal and state statutes, regulations and court cases. State statutes either impact all towns or are local option laws. Local option laws impact a town only when the municipal legislative body votes to accept them. Such acceptance may be rescinded by the legislative body after a set time period. Certain decisions or opinions by the courts at both state and federal levels of the government can also impact how towns govern.

Elected and Appointed Officials:

A town's charter or legal base identifies which officials are elected or appointed. The different types of town officials and the boards, committees, and commissions comprising town government are numerous. At a minimum, unless a charter or special act exists, every town must have a select board, school committee, town clerk and treasurer. The select board and school committee must be elected. The town clerk and the treasurer may be either elected or appointed.

Select Board

The select board (in some towns still referred to as the board of selectmen) is made up of at least three members, or in some towns, five members. They are elected for three-year terms on a staggered basis. The select board is the principal executive body of a town, having general supervision over all matters not delegated by law or vote to some other official or board. With the exception of a few municipalities, no funds can be expended or paid out by the treasurer unless approved by a warrant signed by a majority of the select board. Nor may any money be borrowed by the treasurer unless the board members approve such action. The select board members are also required to sign all bonds and notes for borrowing funds, and are given authority as the town licensing board by the state.

If approved by the voters at a town election, the position of select board member can be combined with one or more of the following positions or positions: board of assessors, board of health, municipal light commission, park commissioner, water and light commissioner, and water and sewer boards. The same statute that allows this consolidation also authorizes the select board members to appoint cemetery commissioners, assessors, a superintendent of streets, chiefs of police and fire departments, a tree warden or any combination of such officers (Chapter 41 M.G.L.).

School Committee

The elected school committee is responsible for the administration and budget of the town's education system. This includes the appointment of a superintendent of schools who, in turn, appoints other employees of the school system. With the passage of the Education Reform Act in 1993, the role of the school committee has largely become one of policy-making, with greater authority given over to the superintendent (Chapter 71 M.G.L.).

Town Clerk

The town clerk is the recorder of official town business. S/he is responsible for the conduct of elections and is the executive member of the town's registrar of voters, being responsible for the preparation, publication, and circulation of the town's voter list. Town clerks also issue and collect fees for licenses such as marriage licenses, sporting licenses, hunting, fishing and trapping licenses, and dog licenses (Chapter 41 M.G.L.).

Treasurer

The town treasurer is responsible for the management of town funds. Treasurers receive and disburse cash, invest available cash, issue and manage debt obligations and manage bank relationships. They may also administer group insurance, payroll, and pension and retirement systems.

Other Functions

In addition to the above-mentioned governmental services, every town must provide for the administration of the following: (Chapter 41 M.G.L.)

- **Assessment of taxes:** This is generally the responsibility of the board of assessors.
- **Collection of taxes:** The tax collector position is sometimes combined with that of treasurer. In either case, the position may be appointed or elected.
- **Accounting of financial records:** The town accountant serves as comptroller of the budget. All municipal expenditures are paid through the town accountant's office and placed on a warrant for the select board to sign. An independent outside auditor is responsible for auditing the "books" of the municipality.
- **Health activities:** These are conducted under the jurisdiction of the board of health.
- **Road maintenance:** Upkeep of town roads and public ways generally falls under the supervision of the department of public works. In towns where there is no department of public works, the highway department would usually be responsible for road maintenance.
- **Care of public shade trees:** This is the responsibility of the tree warden.
- **Preservation of peace and public safety:** Public safety is the responsibility of the police and fire departments, as well as departments such as building inspections and civil defense (sometimes called emergency management).

Other important town departments or officers include:

- **Planning board:** All towns with a population of greater than 10,000 must establish a planning board. The planning board administers the subdivision control law and zoning bylaw. The size of the board is generally between five and nine elected or appointed members.
- **Board of appeals:** The board of appeals is a quasi-judicial board that considers variances and special permits within a town's administrative and zoning bylaws. Zoning bylaws must provide for a zoning board of appeals unless otherwise specified in a charter.
- **Zoning administrator or zoning enforcement officer:** This is an appointed position and the designee is responsible for ensuring that building and land use within a town complies with the zoning bylaws.
- **Conservation commission:** The conservation commission promotes and develops a town's natural resources, protects the town's watershed, and administers the Wetlands Protection Act. A town may establish a conservation commission with three to seven members.
- **Finance committee:** Towns with a property valuation of $1 million or more must create a finance committee (either by charter or bylaw) . Some towns refer to this committee as the advisory, warrant or appropriation committee. Most committees are appointed by the moderator, although in some towns the select board or a combination of officers act as the appointing authority. In other towns, finance committee members are elected.

The finance committee's prime responsibility is to make recommendations on all financial matters, including the budget, to town meeting. The finance committee has oversight responsibility for all municipal financial matters, as well as other statutory authority granted to them by town bylaws (See Chapter 3).

This chapter was prepared by: Timothy Higgins, Melvin A. Kleckner, and Richard A. Montuori and updated by Allan Tosti and Melinda Tarsi.

Chapter 2: Municipal Budgeting

Introduction

A budget is a plan expressed in monetary terms covering a specific period of time. Regardless of the level of government, a governmental budget consists of three elements:

- an estimate of revenue, indicating amounts by source;
- a statement of expenses, by organizational unit, program, and/or expense item; and
- a specified time period, usually a fiscal year.

In local government, municipalities have various revenue-raising powers, some granted by state statute, others established by local bylaw or by vote of town meeting, the select board or the school committee. Towns raise revenues to support programs and services.

Town expenses reflect the cost of programs and services that are provided directly by a municipality's departments or in concert with other governmental units (e.g. regional schools). Municipal budgets may present these expenses in a variety of ways, offering greater or lesser detail about expenses related to departments, programs and expected activities or outcomes.

In Massachusetts, the governmental fiscal year begins on July 1 and ends twelve months later on June 30. The fiscal year for the federal government, however, begins on October 1 and ends on the following September 30. (References to a particular fiscal year reflect the year of the month in which the fiscal year ends. FY 2022 indicates the fiscal year that will end on June 30, 2022, for Massachusetts governmental units, or the federal fiscal year that will end on September 30, 2022.)

Citizens are now demanding larger roles in the resource allocation process and greater financial accountability from public officials. Developing budgets that achieve those goals will improve the budgeting process in our communities.

Purposes of the Budget

The language of budgets is dollars and cents, but a town's budget should communicate more than the relationship of revenues and expenses for a given fiscal year. The Government Finance Officers Association (GFOA) conducts the only national awards program in governmental budgeting. In presenting its Distinguished Budget Presentation Award, the GFOA recognizes government entities whose budgets serve four essential purposes. The guidelines require that the budget document be a:

- policy document, identifying the organization's challenges, programs, and financial goals and policies;
- financial plan, presenting the town's current financial condition, comparing all revenues and expenditures for the prior year, current year, and coming year, stating economic assumptions and projecting the town's financial condition at the end of the budget period;
- operations guide, describing municipal services and operations, such as police and fire protection, education, maintenance of streets, parks, water and sewer systems and identifying measures of activity, effectiveness and efficiency for individual programs or departments; and a
- communications device, articulating a community's challenges and priorities for the coming year and summarizing for taxpayers and other interested individuals and organizations how the town's

programs, services, and finances will meet those challenges and accomplish those goals.

Revenues

While demands for services generally outstrip available resources, forecasting anticipated revenues for the coming year establishes the framework for preparing a town budget. The array of services provided by Massachusetts communities varies; however, towns primarily raise revenues from the following sources:

- property taxes;
- state aid;
- local receipts; and
- other available funds.

Property Taxes

Taxing the value of real estate (land and structures) and personal property, including equipment owned by commercial entities, accounts for approximately fifty percent of all local revenue. The amount of property tax revenue a town can raise is governed by a law known as Proposition 2 1/2 (Chapter 59 s 21C M.G.L.). In general, Proposition 2 1/2 limits the amount of property taxes raised in any year to 2 1/2 percent of a community's assessed valuation and limits the total aggregate increase in property taxes levied from one year to the next to 2 1/2 percent (See Chapter 6).

This legislation suggests a simple formula for estimating property tax receipts for the coming year; however, the law also allows for raising additional taxes based on growth in the tax base resulting from new construction and improvements to existing properties.

State Aid

Depending on the municipality, state aid accounts for anywhere from 10 to 75 percent of local revenue, and projecting state aid is often an imprecise process. Each year the Department of Revenue issues a document to every city, town and regional school district known as the Cherry Sheet - a term derived from the color of paper it was originally printed on (See Chapter 4 and Exhibit L). This two-page document lists the various categories and amounts of state aid provided, as well as offsets and charges from the state, county, and special district assessments that the town owes to other levels of government. Thus, the Cherry Sheet reflects state aid for the coming year minus the deductions for these intergovernmental charges. (While these assessments are charged to the town, they are not voted on as an appropriation by town meeting.)

The state budget is generally not enacted until the late spring or early summer for the fiscal year that begins July 1. Yet, in order for the budget process to proceed in an orderly fashion, reasonable revenue estimates must be made six to eight months earlier. Lacking firm estimates of state aid for the coming year, the current year's Cherry Sheet and estimates of payments from the Massachusetts School Building Authority are useful beginning points for estimating these revenues.

During the State legislative session, the Division of Local Services projects, on their website, the cherry sheet amounts for each city and town based upon the changing recommendations from the governor, the House Ways and Means Committee, the final House, the Senate Ways and Means Committee and the final Senate. Many finance committees base their recommendations on the most recent projection before going to print.

There are a number of state aid accounts that can change significantly from year to year. Some of these (such as the ending of a school building assistance payment schedule) should be evident to local officials; others will be substantially more difficult to anticipate.

Local Receipts

Each town determines the extent to which programs and services will be supported by fees and charges. Also, towns may levy and collect taxes and fees within the provisions of state statutes. Such local receipts collected by the community include, but are not limited to, the following:

- motor vehicle excise;
- water and sewer charges;
- penalties and interest;
- charges for services;
- departmental revenue;
- licenses and permits;
- fines and forfeits;
- investment income;

- hotel/motel tax; and
- meals tax.

Outside of hotel/motel, meals and motor vehicle excise taxes, it is user fees, licenses and permits that constitute most local receipts. While a user fee cannot be a way of instituting a "hidden tax," state law allows towns to establish user fees to recover all of the direct and indirect costs of providing a service (See Chapter 9). Local receipts often account for as much as 20 percent of a town's estimated revenues.

Other Available Funds

This category includes a variety of funds that are available for appropriation to balance the budget. The following is not an exhaustive list, but briefly describes the major categories of other funds available to most towns.

Free Cash

Free cash is also referred to as an unappropriated fund balance, and is a factor in every budget cycle. The Department of Revenue certifies amounts of "free cash" resulting from closing the financial books as of June 30, the end of the fiscal year. Generally, the calculation incorporates:

- surplus revenue: revenue collections in excess of estimated revenues;
- budget turn backs: unexpended appropriations;
- prior year's free cash: the fund balance from last June 30 that had not been appropriated for the current year's budget; and
- outstanding property taxes: taxes collected from prior years.

A town's free cash, or "budgetary fund balance," is the amount of funds that are unrestricted and available for appropriation. While towns may appropriate free cash to balance the budget for the coming fiscal year, an ample free cash balance provides towns with financial flexibility. Town meeting may appropriate from free cash during a given fiscal year to meet unexpected expenses or to fund a needed capital project. Depleting free cash, particularly to balance annual budgets, may suggest that a community will face tighter financial times without such funds to supplement annual revenues. This drawdown on reserves might also have a negative impact on the town's credit rating.

Stabilization Fund

Some communities maintain a more formal "rainy day" fund called the stabilization fund. Analogous to a bank account, town meeting can appropriate or "make deposits" into this fund for use at some future time. A stabilization fund can be used for any legitimate municipal purpose. A majority vote is necessary to appropriate into this fund, but a two-thirds vote is required to appropriate from this fund. Legislation passed on July 31, 2003 (Chapter 40 s5B M.G.L.) allows the creation of multiple stabilization funds for specified purposes (See Department of Revenue IGR No.04-201).

A municipality may also dedicate all or a portion of a revenue stream into the fund.

In addition, pursuant to Chapter 59 Section 21C(g) M.G.L. a municipality may approve an override for the purpose of funding a stabilization fund.

Miscellaneous Revenue and Other Funds

These include federal and state grants, gifts, funds from the sale of assets, insurance proceeds in excess of $20,000, transfers from other town accounts (such as a parking meter fund) and other reserve accounts permitted by state law.

Expenditures

Most municipal budgets focus on how a town's limited resources will be allocated to meet service demands, i.e., how the community proposes to spend its money. Preparing (or at least reviewing) spending plans, analyzing their consequences, and presenting recommendations to town meeting is the essence of the finance committee's charge.

Budgets present operating and capital expenditures at various levels of detail for the different town activities. The budget will contain departmental budget requests; non-departmental budget requests from commissions, boards, and committees; and off-budget items. The latter may not require town meeting approval but nonetheless represent charges, assessments or other financial commitments of the town.

Departmental Expenses

A typical budget for an operating department might reflect these expenditure categories:

- personnel services;
- purchased services;
- supplies;
- other expenses; and
- capital outlay.

Each category may be further described as expense objects, or line-items, and the budget document may provide additional supporting information, such as:

Wage and Salary Requests

Each department may present a schedule of position titles, numbers of full-time equivalent positions budgeted, and salary and wage schedules to support personnel services budget requests for the coming fiscal year. If union contracts are not yet settled, an amount for a collective bargaining increase is generally not included. However, funds for this purpose should be set aside. State law requires a specific vote by town meeting to fund a non-school collective bargaining settlement (M.G.L Chapter 150E.).

Because employee compensation often accounts for over 80 percent of a town's operating expenses, the budget should provide ample financial information supporting wage and salary requests.

Other Operating Expenses

These expense requests should also describe in greater detail the broad categories of purchased services (utilities, maintenance, professional services), supplies (office supplies, vehicle supplies), other expenses (travel, training), and capital outlay (desks, chairs, office equipment).

Budget guidelines should define which capital outlays are appropriate for operating budgets and which should be in capital budgets.

Non Departmental Budgets

Most towns separate as "town-wide expenses" budgetary items that are not the responsibility of any one department. These expenses include items such as employee benefits, including Medicare, retirement contributions and health insurance premiums. Other non-departmental items are: debt service, liability insurance, and requests such as reserve fund appropriations.

In general, the level of detail supporting these requests should reflect the magnitude of the request and its relationship to elements of the operating budget. As the cost of employee benefits has grown relative to wages, some towns allocate such costs to the appropriate operating departments or programs. If the budget request fails to relate benefit costs to department or program costs, an analysis is necessary to demonstrate the full cost of the department or program. In addition, the town-wide expense of any new positions shall always be considered.

Off-Budget Items

The finance committee must consider some items as part of the budget, even though town meeting does not appropriate funds for such obligations. For example, a balanced budget must include Cherry Sheet assessments, court judgements, overlay reserves (reserves for future property tax abatements), and deficits required to be raised in the next year's tax rate. (Chapter 59 s 23 M.G.L.)

Revolving Funds

A revolving fund receives its income from selling goods and services to users or participants in a program, and expends monies to cover the costs of such goods or the expenses of providing the particular program or service. The intent is for such activities to break even financially, and the revolving fund is a mechanism that allows for fluctuations in levels of activity. Revolving funds exist under specific statutory authority and operate without appropriation by town meeting. M.G.L. Ch. 53 E 1/2 allows a wide variety of revolving funds (See Chapter 3).

Revolving funds are commonly used for parks and recreation programs; school athletic programs; community, adult education, and continuing education programs; and school lunch programs. A revolving fund must be authorized annually by town meeting.

Capital Expenditures

Each community should develop a separate five-year capital plan that indicates specific capital requests for the coming fiscal years. This section of the budget presents the purchases proposed to replace or augment the town's fleet of vehicles and equipment; expenditures to replace, upgrade, or expand the town's infrastructure — roads, streets, sewers, and buildings; and major investments in any of the town's fixed assets. This section of the budget should identify the funding sources for the capital plan and for the coming year's requests. Chapter 11 of this handbook presents a comprehensive discussion of capital planning and budgeting.

The Budget Process

An effective budget process begins with a clear understanding of who will be responsible for the essential budget activities:

- issuing budget guidelines;
- preparing budget requests;
- assembling requests into a comprehensive budget for review; and
- reviewing, analyzing, and recommending a budget to town meeting.

Statutory responsibilities, town bylaws, and the town's organizational structure dictate, or at least influence, who is responsible for each of these activities. In general, the executive branch of town government should be responsible for the first three budget development activities. The finance committee should focus on the last of these four activities.

Municipalities with town managers or similar professional positions generally give responsibility for budget development to the individual(s) holding said position. In towns without a coordinating professional manager, the budget-making responsibility should still belong exclusively to the executive branch of the government — the select board. The school superintendent and school committee, the executive branch of government for local school systems, retain responsibility for developing the local public school system budget. In some communities, the bylaws state that the select board members are responsible for presenting a comprehensive, balanced budget to town meeting.

The divisions of labor and responsibility are further complicated when certain municipal officials are elected, or when operating departments report to separately elected boards and commissions. In such situations, the finance committee may receive several budgets and must consolidate and balance the budget itself. Unless required by town charter or bylaws, however, it is not advisable for the finance committee to take on the budget-making role directly. Such a role usurps some of the powers and responsibilities of elected officials and their appointees, and compromises the committee's primary statutory role as objective advisor to town meeting. In addition, this process can be a daunting task for a volunteer committee, particularly without the help of a professional in the town's administration, such as the town accountant.

Practical Steps in The Budget Process

The practical steps in this budget-making process mirror the development and publication of the following specific materials:

- a budget calendar, setting forth responsibilities and due dates, providing for adequate review periods, and allowing for advance notice to the public regarding hearings prior to the town meeting;
- preliminary projections of revenue estimates and non-operating expenses that the town must provide for (Cherry Sheet and overlay assessments). Early presentation of these projections allows all interested parties (select board, school committee, general public) an opportunity to review and question;
- budget guidelines establishing overall parameters for consolidated town and school budgets and a framework for budget development for department heads and other officials;
- budget instructions describing how to use the standardized forms and procedures for the preparation of the budget requests;
- budget presentation format indicating the form and content of the budget document. Will it compare prior year's actual expenditures and the current year's budget? What supplemental data will be included? What special challenges or issues will the document address?

- comprehensive budget document incorporating operating and capital budgets from all town bodies, as well as non-departmental and other budget requests;
- schedule for review and public hearings allowing for public comment, questions, and justification of budget requests;
- recommendations by the finance committee to town meeting.

Calendar of Budget and Financial Events

The work of the finance committee can be year-round, although most committee activities take place from December to May. In a typical municipality, budget guidelines, worksheets and instructions are distributed to departments in the fall. Over the winter months, these requests are reviewed by the town administrator and select board, by the superintendent and the school committee, and by finance committee members. At some point in late winter, early or even late spring, these reviews culminate in the finance committee recommendations to town meeting.

In some communities, at certain stages during the review, a town administrator or manager may present a consolidated budget recommendation for consideration by the select board and finance committee.

WHEN	EVENT	WHO
Aug-Oct.	Certify free cash (used in coming fiscal year revenue projections.)	town accountant, Department of Revenue
September	Begin budget process for coming year. Establish next fiscal year budget guidelines. Develop and distribute budget guidelines and forms.	Select board, department heads, finance committee, school committee
October	Set tax rate for communities with semi-annual billing. Review departmental budgets.	assessors, select board, town administrator
November	Submit budget requests.	department heads, school department, select board, town administrator
November	Set tax rate set for communities with quarterly billing. (New growth in tax levy calculated.)	assessors, select board
November	Begin capital planning process.	Select board, department heads, finance comm., CIP committee
December	Prepare initial revenue/expenditures projections for coming year.	select board, accountant, finance committee
January	Release "House 1"; first indication of state aid for coming fiscal year.	Governor
February	Begin preparation of budget recommendations. Meet with department heads.	finance committee
March	If Legislature passes a Local Aid Resolution, Cherry Sheets will be issued. Prepare final revenue/expenditure projection for coming fiscal year in preparation for town meeting	state legislature, Department of Revenue selectmen, finance committee
April-May	Prepare town meeting warrant recommendations. Town meetings take place.	finance committee
June	Make any reserve fund transfers necessary, to complete fiscal year. Transfer funds within and between dept. budgets	finance committee Select board, finance committee

The schedule above summarizes the major financial events occurring during the fiscal year and notes the roles of various local and state officials.

Town meeting dates influence the timing of some of the scheduled activities.Any general schedule such as the one above will not reflect the unique and special circumstances of the Commonwealth's diverse local communities. The schedule for budget preparation depends upon a number of factors — the town's organizational structure, budget preparation bylaws, staff support and town meeting dates.

Budget Participants

The calendar of events reveals a surprisingly long list of participants who affect and influence the process of developing, reviewing and approving budgets. With the caveat that individual towns may depart from the norm, a brief description follows of the roles and responsibilities of these players in the budget process.

Select Board

The select board is the town's executive board with overall responsibility for the general operations of town government. Because of their broad role, they should participate in the budget process, provide leadership in the development of the capital improvement plan, and provide oversight and monitoring of the financial performance. In most towns, the board, or its administrative staff, prepares the proposed municipal budget. Professional staff appointed by the board generally oversee the town's day-to-day operations and town finances. In particular, these appointees may include a town administrator or town manager and/or a finance director.

Finance Committee

The finance committee is a town's official fiscal watchdog. Its primary responsibility is to advise and make recommendations to town meeting on the budget and other areas of finance, although in many towns they prepare and submit the budget as well as comment on it. The state statutory authority of the finance committee does not vary from community to community, but the role and process does. (See "The Role of the Finance Committee" at the beginning of the Handbook.)

Town Accountant

The town accountant is responsible for maintaining the town's financial records, including the statement of revenues and expenditures, balance sheet, and any other records required by law or regulation. No bill can be paid without the approval of the town accountant. The authority of the town accountant is strictly governed by state law. The town accountant will generally play a key role in working with the town's independent auditor.

Treasurer/Tax Collector

The authority of town treasurers and tax collectors is strictly governed by state law. Most communities have combined the position of treasurer and tax collector, although there is no requirement to do so. As the town's cash manager, the treasurer is responsible for the deposit, investment, and disbursement of town funds. While only the treasurer can sign checks to pay the town's bills, treasurers cannot release any funds without the approval of the town accountant. The treasurer is also responsible for debt management as well as banking relations.

The tax collector is responsible for collecting property taxes and motor vehicle excise taxes, water/sewer charges, and a variety of other municipal receipts

Assessors

The board of assessors is responsible for the valuation of real and personal property for the purpose of levying the property tax. The assessors are also responsible for submitting the tax rate recapitulation (recap) sheet to the Department of Revenue, although the preparation of this document is generally a team effort by the town's finance officials. The tax recap sheet is the legal document used to set a community's tax rate. The assessors also have the authority to grant abatements and exemptions to taxpayers, subject to the authority provided by state law.

Finance Director

In recent years a trend has emerged to consolidate town financial functions in the role of the finance director (M.G.L. Ch. 43 c s 11). The enabling statute allows for wide local discretion in defining this role; therefore, functions and responsibilities vary greatly between and among communities. Many positions include responsibility for assessors, town accountants, treasurers and collectors.

Department Heads

As budgets have evolved from financial documents to statements of programs, services and expected outcomes, the role of the department head has become more central to the budget process. In contrast to the practice of simply crunching numbers, department heads in most communities now develop budget requests that describe the service impacts of proposed spending levels. Town meeting expects department heads to justify their requests by linking departmental spending to program benefits.

Town Meeting

Town meeting is the legislative body and appropriating authority of a town. As such, it enacts bylaws (i.e., local laws), approves the operating and capital budgets, authorizes the town to borrow funds, and may ratify major policies concerning the financial management of the municipality.

Budget Formats

There is a common misconception that the Commonwealth prescribes a mandatory budget format for towns. There is no such requirement; therefore, no two town budget documents are alike. The Division of Local Services of the Department of Revenue, however, has determined that towns may rely for guidance upon M.G.L. Ch. 44 s 32, which sets forth the budget format for cities.

Even professional governmental management and finance associations, such as the Government Finance Officers Association (GFOA), direct their guidelines to what should be presented rather than how to present it. The most practical approach to determining the format of various budget documents is to focus on the product of the budget development process: the comprehensive balanced budget and the finance committee's report to town meeting. Recognize that these documents must serve multiple purposes:

- They must communicate the proposed financial plan to town meeting and to the broader community. Ideally, the budget document would meet the criteria for budget presentation set forth by the GFOA.
- They must be the basis for town meeting's appropriation of funds for the various departments, programs, capital expenditures, and other non-departmental expenses.
- They must establish the framework for the financial controls necessary to administer the budget during the fiscal year, ensuring that expenses will not exceed appropriations and permitting appointed and elected officials to monitor results versus the financial plan.

In addition, the format for budget presentation and town meeting appropriations establish the parameters for expense control and management flexibility.

Line-Item Budgets

A line-item budget presentation for each department will likely focus all attention on expenditures and none on the results of expenditures. Monitoring expenses and appropriations at the line-item level will require extensive and time-consuming vigilance to limit spending to each specific appropriation. Since every budget is a set of initial estimates and because circumstances change during the year, reserve fund transfers and supplemental appropriations may be necessary to respond to mid-course corrections.

Categorical Budgets

A budget that groups line-items in departments into categories, such as personnel services and other expenses, offers greater flexibility but still imposes somewhat rigid controls. Such specific town meeting appropriations within each department prevent the department head, town administrator, or select board from managing for results. The manager has no discretion to determine the most effective and efficient ways to achieve desired results and deliver services within the total amount of departmental resources.

Single Appropriation Budgets

A budget format that presents a single appropriation amount for each department or program simplifies the process of monitoring and making adjustments during the year. Management can focus on delivering services rather than on accounting details. However, in some instances this format may grant more flexibility and authority than town meeting wishes to convey.

Group or Departmental Appropriation Budgets

A budget presented and voted as appropriations for groups of departments, for broad programs or even for the entire town government gives broad spending discretion to the select board and/or management team. Town meeting must have confidence in the ability and commitment of these administrators to provide the level and quality of services promised by the budget. Group budgets should only be contemplated where the accounting system is capable of providing reports to monitor expenditure detail.

Maximum control is achieved by appropriating funds for "objects of expenditure," or line-items. Spending cannot exceed the amount appropriated for the specific item. Managers gain flexibility when appropriations encompass multiple line-items or even multiple departments and programs. Such a system permits over-spending line items and even departmental budgets as long as total expenditures do not exceed the amount appropriated.

This discussion of the tension between appropriation control and managerial flexibility applies only to municipal budget elements. In accordance with state law, the appropriation for the local education budget is presented to town meeting as a single amount. Town meeting has no authority to divide elements of the school department's budget, make line-item amendments, or direct expenditures to specific purposes within the budget.

Town meeting must appropriate one amount for the local public schools and appropriate the assessment proposed for regional school districts. An appropriation for any amount less than what the regional school proposes constitutes a rejection of the regional school budget.

The Budget Building Block

Regardless of the level of detail chosen for town meeting appropriation votes or for the finance committee's report, all budgeting begins with the line-item, the building block for budget analysis and understanding. Before decisions can be made about allocating resources or aggregating data for presentation, budget preparers and reviewers must achieve a detailed understanding of where revenues come from and what the town spends money for. Revenue and expense line-items provide these details.

Mastering the details is essential for some players in the budget process, but presenting line-items may in some cases impede the understanding of others. A glossary of terms might explain in detail, for example, the line-items captured as "personnel services" in departmental operating budgets. An accompanying organization chart might enumerate the numbers and types of positions. Local receipts may account for $4 million in estimated revenues, but the finance committee may wish to present the specific forecasts of each revenue line-item.

As mentioned earlier, there is no state law that guides the level of detail for budget preparation or town meeting appropriation, except for the requirement to appropriate a single amount for the local education budget. Each town must determine what level of detail is practical for its own circumstances.

Legal Requirements

To meet the minimum legal requirements for approving a budget, town meeting must vote appropriations for salaries and wages and for expenses of each town department. In addition, town meeting must vote each year to approve the salaries for elected officials.

In some instances, town bylaws may prescribe specific aggregations of line-items for appropriation purposes. More typically, there is no such stipulation, and a town may adopt any degree of itemization within its budget to balance expenditure control and management flexibility. Regardless of the details of each appropriation, town meeting must approve any transfers of funds between separate appropriations (Chapter 44 s 33B M.G.L.) for all departments, except the town's school appropriation.

This statute does allow for transfers, without town meeting approval, by the select board, with the approval of the finance committee, during the last two months of the fiscal year, or during the first 15 days of the new fiscal year to apply to the previous fiscal year, to allow management flexibility. It does not allow for transfers from local or regional school appropriations or light departments.

If town meeting appropriates a sum for a reserve fund, then the finance committee may transfer funds from this reserve to specific departments within statutory limitations.

Budget Preparation and Presentation Documents

Given the importance of budgets as communication devices, the finance committee must collaborate with other participants in the budget process to gather, organize, and present budget information. This section offers specific suggestions for three sets of documents essential to budget activities:

- The budget preparation package, the documents that request and gather budget information;
- The budget document, the comprehensive budget presented to the finance committee; and
- The finance committee report, the committee's analysis and recommendations to town meeting.

The Budget Preparation Package

As the calendar of budget events suggests, one of s developing and issuing budget guidelines and the forms for documenting budget requests. Preparing and issuing this package involves the key budget players -- the select board, town administrator and finance director, as well as any other appointed and elected officials; the school committee and superintendent; and the finance committee.

Again, it is desirable to have agreed on the formats for the budget document and for the finance committee report before this package is issued. Ideally, one set of guidelines would establish the framework for budget development. Practically, the select board and the school committee issue separate budget preparation packages and present budgets in different formats.

The following list suggests elements of a typical budget preparation package:

- letter of transmittal;
- budget calendar;
- economic and other assumptions;
- budget guidelines;
- budget request forms and instructions;
- operating budget;
- capital budget;
- interfund transfers and other special items;
- glossaries and appendices;
- wage and salary schedules;
- chart of accounts;
- revenue and expenditure codes or line items; and
- five-year capital plan.

While requests for capital budget items may be included in this package, many towns have developed specific processes to develop capital plans and annual capital budget requests. Some towns have separate capital expenditure committees to guide this planning and/or to review capital plans and requests. These parallel activities allow for appropriate development and consideration of the service and financial impacts of investments in the town's fixed assets. A separate preparation package and timetable may be effective, and capital budget proposals may then be incorporated into the comprehensive budget document.

The Budget Document

The budget document format should promote an understanding of the proposed budget and of how the budget was prepared. The following outline might serve as a table of contents for the comprehensive presentation of the town's budget:

- letter of transmittal;
- table of contents;
- overview letter;
- community issues and challenges;
- financial goals and policies;
- goals and objectives of the budget;
- town organization chart;
- budgetary guidelines:
- budget process;
- budget calendar;
- budget format;
- budget summary;
- operating capital;
- financial summaries;
- revenues and expenditures;
- property taxes, levy limits, and Proposition 2 1/2;
- state and federal grants;
- outstanding and proposed debt;
- free cash, reserve fund, stabilization fund, and other reserves;
- statistical and graphical presentations;
- departmental/boards/committee detail;
- organizational narratives and charts;
- goals and objectives;
- program description(s) and performance objectives;
- capital items;
- personnel chart and historical comparisons;
- glossaries;
- five-year capital plan;
- chart of accounts/expenditure codes;
- wage and salary schedules;
- relevant town bylaws;
- town meeting warrant.

The budget document is the vehicle that clearly shows the finance committee, town meeting, and the community at large the municipality's financial plan for the upcoming year, and how revenues and expenditures will allow for departments to complete this plan.

The Finance Committee Report

The finance committee should promote the implementation of a budget process that results in a clear and meaningful budget document. The annual budget is the opportunity to present the voters with a clear picture of town government: what it is, where it is, and where it is heading.

The finance committee report is the extremely critical end-product of the budget development process. This document should inform town meeting of the proposed budget and its recommendations on all financial articles. Further, the report often establishes the appropriation framework for the upcoming year.

Whether or not the finance committee prepares the town's budget, the committee is responsible for submitting recommendations on the budget and other financial warrant articles to town meeting. The finance committee report provides analyses, explanations, and justifications for its recommendations. Although the level of detail varies from town to town, more informative reports include financial and statistical data, often trace historical trends and specific appropriations. However, there is no need to duplicate information already presented in a comprehensive budget document.

The town's financial condition, the issues posed by the budget, local bylaws, customs and traditions, and the interests and skills of committee members will all shape the finance committee report. Often, town staff assists the finance committee in preparing the report, and in larger towns the finance committee may have its own staff.

Setting the Property Tax Rate

Towns derive the majority of their revenue from real estate and personal property. Although town meeting adopts a budget before July 1, the start of the fiscal year, the tax rate is not set until the following October or November. Because of the importance of property tax to town budgets, finance committees should understand and monitor the process of setting the tax rate, which may either validate or change revenue estimates (assumptions used to balance the adopted budget). These revenue estimates, whether confirmed or revised, then become the basis for preliminary revenue forecasts for the following budget year.

Free Cash

A town's free cash, or budgetary fund balance, is the amount of funds that are unrestricted and available for appropriation. Free cash provides towns with financial flexibility, as it is the major source of funding for supplemental appropriations after the establishment of an annual budget through the tax rate approval process. Towns often appropriate all or a portion of their free cash to support operations during the year. Free cash is generated by actual revenue collections in excess of estimates and actual expenditures and encumbrances less than budgeted amounts. Depletion of free cash can indicate tighter financial times. It is recommended that each town develop a policy on the amount and use of free cash to avoid wide swings in the levels available from year to year.

Cash Management

At the outset it must be noted that the town treasurer is primarily responsible for the cash management program for the town. Cash management involves cash flow analysis, investment planning and investments and tax collections (See Chapter 8).

The Tax Recapitulation Sheet

The vehicle for setting the tax rate is a tax recapitulation sheet (recap sheet) that the board of assessors submits annually to the Department of Revenue (DOR) as proof that the town has a balanced budget within the limits of Proposition 2 1/2. The DOR must then approve the annual tax levy growth and the recap sheet, and set the tax rate before a town can issue final tax bills. The recap sheet reflects the total revenues a town must raise through taxation and other sources used to fund local appropriations as well as the assessors' overlay and state and Cherry Sheet assessments (See Appendix L and M for sample copies).

Calculating the Taxes to be Raised

The tax recap sheet guides the calculation of the total tax to be raised by listing the anticipated expenditures and charges and subtracting estimated revenues. The difference is the amount that the town must raise in real estate and personal property taxes. The tax levy is the total amount to be raised less total estimated receipts and other revenue sources (See Appendix M for sample copy).

Total Amount To Be Raised

The tax recap sheet first requires entering the amounts for appropriations, anticipated charges and other expenditures and items, including the following: (See Appendix M-2)

- all voted appropriations;
- offsets and charges from the state and other entities as identified on the Cherry Sheet;
- certain deficits (if any) including "snow and ice" expenses;
- the overlay, an allowance for property tax abatements and exemptions determined by the board of assessors and documented by a worksheet showing a five-year history of such abatements;
- other required items not included in the appropriation process, such as court judgments, tax title/ foreclosure costs, etc.

Estimated Revenues and Other Receipts

Other than the tax levy, all anticipated revenues are enumerated on the tax recap sheet and supporting schedules, including the following items:

- Cherry Sheet receipts (state aid, including "offsets");
- local receipts itemized on Schedule A (and A-1, A-2, A-3 if applicable);
- free cash and other available funds appropriated by town meeting; and
- other sources voted specifically to reduce the tax rate.

There are many reasons why the revenue estimates made prior to the spring town meeting change before setting the final property tax levy. For example, budget estimates for major local revenue sources are generally made in the fall based on the prior year's actual data and the partial results of the current fiscal year. By the next fall, data from the year ended June 30 is available and might justify modification of the budget year estimate.

Similarly, the estimate of new tax levy growth might have been based on historical data and partial current year data. By the fall, the board of assessors should have complete information. In advance of the tax classification hearing, the assessors prepare the state LA-13 form which calculates the allowable new tax levy growth to the penny.

Finance committees should understand and monitor this final step in the process for the preceding budget cycle and use the information it generates to develop preliminary revenues estimates for the coming budget year.

This process demonstrates the importance of working with other town officials in developing revenue estimates, so that all town officials are on the same page in presenting these revenue projections to town meeting.

Summary

A local government's budgeting process should provide a forum for the community to understand, evaluate, discuss, and determine the financial plan for the coming year. The budget document and the finance committee's report are the media that should guide and influence these resource allocation deliberations and decisions. Properly prepared and presented, these comprehensive documents will meet the tests of excellence in budgeting as espoused by the GFOA, the national, state and local government standard setters.

Financial pressures on local governments will continue. Opposition to tax increases limits revenue growth. Demographic changes create demands for more and improved services. Escalating service delivery costs require trade-offs in the level and quality of town services. Recognition that these challenges will not diminish creates a need for improvements and innovations in financial planning and control of available resources. Towns need to continue to improve the budget process.

Some communities have turned to performance budgeting as one element of a performance-based management system that closely ties budgets to results and to the strategic plan. Such a system shifts the focus from a traditional line-item budget to measurable departmental service and efficiency measures.

Strategic planning, program goals and objectives, benchmarking, and "customer opinion/satisfaction" surveys are all mechanisms to focus on community needs and wants and to measure the effectiveness and efficiency of service delivery. Long-range financial planning, including revenue and expenditure projections, multi-year capital planning, and community-wide demographic forecasts enable a town to make better annual budget decisions.

Municipal budgeting links these many management and analytical techniques. The budget process must do more than simply allocate financial resources to competing programs and services, it should articulate goals, objectives, and measurable indicators of service delivery. When the budget process does so, the budget document will describe not only how much money the town spends on every department and program, but what results citizens should expect from these departments.

This chapter was prepared by Harvey Beth, Anthony Logalbo, John J. Ryan, Anthony Torissi and Carl Valente and was updated by Allan Tosti and Melinda Tarsi.


Chapter 3: The Finance Committee: Structure and Functions

Introduction

In 1870, a group of Quincy citizens banded together to restore financial order in their municipality, creating the Commonwealth's first finance committee. In 1910, the Massachusetts courts ruled that a municipal finance committee was legal (Sinclair v. Fall River, 198 Mass 248). In that same year, the Massachusetts General Court also acknowledged the need for municipal finance committees statewide, requiring all but the smallest municipalities to establish such committees to assist in dealing with emerging municipal challenges (St 1910, Ch. 130, s 2). Several additional legislative assists (i.e., St 1923, Ch. 388 and St 1929, Ch. 270), reinforced the mandated or permitted existence of municipal finance committees.

Basic Legislation

The present basic legislation, Chapter 39 s16 M.G.L. reads as follows:

> "Every town whose valuation for the purpose of apportioning the state tax exceeds one million dollars shall, and any other town may, by bylaw provide for the election or the appointment and duties of appropriation, advisory or finance committees, who shall consider any or all municipal questions for the purpose of making reports or recommendations to the town; and such bylaws may provide that committees so appointed or elected may continue in office for terms not exceeding three years from the date of appointment or election. In every town having a committee appointed under authority of this section, such committee, or the selectmen if authorized by bylaw of the town, and, in any town not having such a committee, the selectmen, shall submit a budget at the annual town meeting."

Almost every town across the state interprets this statute differently and has established its local finance committee to meet the community's specific needs. In some towns, for example, the finance committee may prepare as well as comment on the budget. It is generally agreed that finance committees may consider any matter they feel will have a fiscal impact on the town, as well as any other matters the committee feels are relevant. It may reasonably be argued that little comes before town meeting that does not have a potential fiscal impact on the town.

Survey Results

The Association of Town Finance Committees (ATFC) has conducted surveys which revealed several interesting pieces of information. First, there is wide variation in the number of members on finance committees. The most common number is nine (40 of the 135 respondents), followed by seven and five-member boards respectively. Of the towns responding to the survey, 114 finance committees are appointed and only 21 are elected. Eight five of the appointed committees are appointed by the town moderator, 14 by the select board and 15 by a combination of the select board, town moderator and the finance committee chair or other town officials.

The overwhelming majority of the responding finance committees serve three-year terms. One town's committee has two-year terms and two have one-year terms.

There is also a great deal of variation in the frequency of meetings among the survey's respondents. Most municipalities answering the questionnaire hold meetings one, two, or even three times a week during budget season, and slow to once every two weeks, once a month, or only as needed during the rest of the year.

Only five towns compensate some or all of their finance committee members. The amount of compensation ranges from $25 a year for a member, to $1,000 a year for a chairperson. Forty of the reporting finance committees reimburse their members for expenses, usually limiting reimbursements to meals, the ATFC Annual Meeting or mileage.

Thirty-six of the responding finance committees have subcommittees. Some towns have as many as 30 subcommittees, and many municipalities note that they have subcommittees for every department in the town.

Staff support is received by 41 finance committees. Often, this support is supplied on an as-needed basis by the secretary to the select board or other full-time staff paid by departments other than the finance committee.

Forty-two of the towns participating in the survey have capital planning committees. The number of members on these committees ranges from three to 12. In several towns, the capital planning committee is not currently operational, or the municipality is in the process of reorganizing or starting such a committee.

Role of the Finance Committee

There are several general statutory constraints that all finance committees share. Members of finance committees are considered municipal employees (M.G.L. Ch. 8 s 186) for purposes of the Conflict of Interest Law (See Appendix D), and must adhere to all state statutory requirements placed on municipal employees. The standards of conduct for municipal employees, both on and off the job, are detailed in the Conflict of Interest Law (Ch. 268A M.G.L).

Open Meeting Law

Democracy at all levels is to be open to its people. In this regard, the finance committee must be cognizant of and follow the requirements of the Open Meeting Law, M.G.L. Ch. 39 s 23a-23c. (See Appendix C.) All materials collected or presented during deliberations and/or meeting(s) of the finance committee are a matter of public record (M.G.L. Ch. 66). Such public records are to be maintained and made available to the public unless specifically exempted. (see Appendix B.)

Americans With Disabilities Act

With the passage of the Americans With Disabilities Act in 1990, all constituent units of state and local government, including finance committees, must ensure that any forums or meetings they participate in or sponsor are accessible to people with disabilities. (See Appendix A.)

Taking/Leaving Office

Once elected or appointed, a finance committee member must be officially sworn in by the town clerk or the town moderator. When a member wishes to resign, his or her letter of resignation must be sent to the town clerk. A letter of resignation is effective upon filing with the town clerk and may not thereafter be rescinded. If a member resigns prior to completing his or her term of office, a replacement is made by the appointing authority, or in some towns may be chosen by the finance committee itself.

Use of Public Resources in Elections

In addition to following the conditions found in the various laws mentioned above, finance committee members (like all municipal employees) may not use any public resources to influence the outcome of an election. Finance committee members may express their opinions at public forums or meetings (Chapter 55 M.G.L. ; the Mass. Supreme Judicial Court reaffirmed this in Anderson v. City of Boston, 376 Mass. 178).

Bias and Conflicts of Interest

Committee members should not allow personal friendships, enmities, biases, preconceptions, or partisan affiliations to interfere with the fair and impartial performance of their official duties. State conflict of interest laws forbid a finance committee member from, among other things, using the position for personal profit. Committee members also have an obligation to avoid not only actual conflicts of interest, but even the appearance of bias or favoritism when acting in their official capacity.

As active participants in town affairs, finance committee members come to the table with their own opinions, experiences and ideas, but members must nonetheless listen carefully and thoughtfully to all matters that come before them. It is difficult to keep personal biases and preconceptions out of official deliberations, but it is a goal to be actively pursued. Doing so can help the committee make better decisions overall, and can also maintain or boost public confidence in the committee's integrity. There have been many laws and regulations passed over the last few years regulating municipal employee conduct. It is essential that all members understand and abide by them. (See Appendices B, C and D.)

Budget Preparation and Submission

The prime functions of the finance committee are to review departmental budgets and submit a balanced budget to town meeting. All municipal officers authorized to spend money must annually provide the finance committee with estimates of how much funding will be needed "for the proper maintenance of the departments under their jurisdiction." These estimates are submitted to the town accountant, or if there is none, to the finance committee or possibly the select board (Chapter 42 s.59 M.G.L.). These estimates are used in the preparation of a town's annual operating and capital budgets.

The Massachusetts Department of Revenue (DOR) has ruled that finance committees are responsible for preparing and submitting their municipality's annual budget (Chapter 39 s 16, Ch. 41, s 59 and s 60M.G.L), unless there is a charter or bylaw giving this authority to the select board or town manager (DOR's In Our Opinion, 93-310). The exact format of an annual town budget is community specific. DOR has determined that while the law regarding annual municipal budget format is directed to cities, it should also be followed by towns. The format found in the law addresses itself to budgetary basics. Almost all towns and cities in the Commonwealth go well beyond this in their annual budget presentation package (see Chapter 2). The DOR has also ruled that only a town meeting — not the finance committee or select board — may determine the exact budget format to be used (see In Our Opinion, 92-145). As a practical matter, town meeting would have to vote to reject the present format and request a new one for the following year.

End of Year Transfers

The state also specifies that only town meeting may transfer appropriated monies. Town meeting cannot delegate this authority to the finance committee (Chapter 44 s33B M.G.L.), (see also In Our Opinion, 92-836). However, in 2006 the state allowed the select board, with the approval of the finance committee, to transfer sums between May 1 and July 15. This does not apply to appropriations for the local or regional school systems or light boards. Transfers are by majority vote. Further, the courts have ruled generally that even though a town bylaw calls for the finance committee to hold public hearings, these hearings are "incidental" to the proper function of the committee and are therefore not mandatory (Young v. Westport , 302 Mass.597, reaffirmed by *Illig v. Plymouth*, 337 Mass. 239).

On the other hand, while finance committees may request information from a town department, they may not seek information from a quasi-governmental entity because such entities are not subject to town bylaws (*Clinton Housing Authority v. FinCom. of Clinton*, 329 Mass. 495). Under the home rule amendment to the state constitution, however, towns and cities do have the power to subpoena witnesses and compensate them at the going rate (Article 89, s 6; also Ch. 233, s 8 and s 10). This provision was tested and affirmed in the courts (*Bloom v. Worcester*, 363 Mass. 136).

Reserve Funds

The law (Chapter 40 Section 6 M.G.L.) allows towns to appropriate money — either at the annual or special town meeting — into a reserve fund "to provide for extraordinary or unforeseen expenditures." The DOR has expressed its opinion that reserve fund transfers are appropriate:

- *to provide for urgent or unforeseen expenditures* that could not have been anticipated before town meeting; and/or;
- *to allow immediate expenditures of funds in the event of an emergency* (threat to public safety or health) when the delay of having to call a special town meeting could be potentially harmful.

In either case, the finance committee must approve all proposed transfers from a reserve fund. It is also understood that a reserve fund should not be to reverse a vote of town meeting or as a "backdoor" means of increasing the budget. Finance committees should adopt their own reserve fund guidelines to supplement the state statute, and should help other town officials gain a better understanding of appropriate uses of a reserve fund.

It is also important that finance committees have a balanced approach in evaluating reserve fund transfers. For example, if budget reductions were made in a community despite legitimate warnings that there might be trouble meeting all fiscal obligations, the finance committee may expect to see an increase in reserve fund requests. It is the committee's responsibility to keep the town's best interests in mind when deciding which reserve fund transfer requests, if any, to approve.

Emergency Winter Related Expenditures

This expenditure is one of the only ones which may be made in excess of its appropriation. This deficit spending only requires the approval of the chief administrative officer of the town. (Chapter 44 s 31D M.G.L.) Expenses in excess of the appropriation must be raised in the tax levy for the next fiscal year. However, in order for this option to be available, towns must have appropriated at least the same amount for snow and ice removal as in the prior fiscal year.

Revolving Funds

Towns are permitted to raise revenue from a variety of services or programs and use those funds to support said services or programs. This type of appropriation is referred to as a "revolving fund." Once monies are raised and designated for a revolving fund, the select board and the finance committee must approve any increase in the amount that may be spent during the fiscal year (M.G.L. Ch. 44 s 53E1/2; also see Chapter 2). Revolving funds must be reauthorized by town meeting each fiscal year; if not, remaining balances may be transferred to another departmental revolving fund or to the general fund.

Stabilization Funds

A stabilization fund is a special reserve account. This fund may be appropriated in any fiscal year and for any municipal purpose (Chapter 40 s 5B M.G.L.). The monies appropriated to a stabilization fund cannot be earmarked unless town meeting establishes a special purpose stabilization fund. While a two-thirds vote at town meeting is required to appropriate monies from such a fund, only a majority vote is required to appropriate monies into the fund. Furthermore, a municipality may dedicate on a recurring basis a specific amount to the stabilization fund each year, funded by a Proposition 2 1/2 override, or dedicate all or a portion of a particular revenue stream into the fund. See Chapter 59, Section 21C (g) M.G.L. (See DOR IGR No.04-201.)

Enterprise Funds

An enterprise fund may be established to segregate monies generated from user fees to pay for the delivery of a specific town program (M.G.L. Ch. 44 s 53F 1/2; also see Chapter 9). The state law establishing enterprise funds is a local option statute, and as such must be accepted by town meeting. Enterprise funds have specific reporting requirements and change the role of the finance committee in overseeing the financial operation of this service.

Gifts and Grants

Gifts and grants given to a town may be expended directly, i.e. without appropriation, with the approval of the select board(Chapter 44 s 53 and 53A M.G.L.). In most cases, gifts or grants may be earmarked for a specific governmental unit or project. Many grants require a local share; some gifts have a challenge component that requires the raising of a certain amount of money from other sources before a gift will be presented. In either situation, the finance committee should know about all gifts and grants in their municipality.

It is recommended that all municipal departments be required to provide the select board and finance committee with an inventory of existing gifts and grants, as well as a list of state and federal grants being sought. Such departmental lists should detail explicitly whether there is a local share requirement, and if so whether it comes from existing funds or whether new money must be appropriated. It is preferable that any local share requirements come from existing funds. Finance committees must also be aware of potential budgetary changes resulting from gifts or grants. For example, after receiving external funding, a department budget request could possibly be reduced. On the other hand, some grants state that their funds must be used in addition to budgeted funds. In addition, the finance committee should inquire whether other costs, such as employee pensions or health insurance, will be affected.

Federal Grants

Despite recent decreases in federal programs there is still money available. At present, there are three general categories of federal grants: categorical, formula, and block.

Categorical grants are awarded on a regional basis for a single purpose within a specified time frame. Massachusetts is in Region I, with federal regional offices located in Boston. The competition in Region I is with other New England states. Categorical grants are the oldest and largest type of federal grants.

Formula grants, sometimes called "pass-through" grants, are awarded to states on a prescribed basis. The state may either distribute the funds to local governments or choose to provide a specific program (or programs) itself.

Block grants are the emerging future of the federal granting system. Under block grants, old programs, existing categorical and formula grants, and any new programs are blended together into single multi-functional grants, which are then distributed to states following the formula grants concept.

The single best resource for municipalities seeking federal domestic grants is *The Catalog of Federal Domestic Assistance (CFDA)*. The CFDA lists all federal domestic assistance grants along with their application and award processes. A copy of the CFDA is sent annually to each unit of state and local government. Town clerks or municipal libraries generally have the CFDA. It is also available at www.cfda.gov. In addition, there are also several relational databases available; one is available through a library system called DIALOG. The Department of Housing and Community Development (DHCD) is a valuable resource for information and grant application assistance.

State Grants

The state plays several important roles in the search for additional funds. The state coordinates the federal pass-through and block grant processes and establishes and funds state grant programs. Massachusetts has a rich history of directly appropriating funds for state programs; however, there is no single catalog available for state grants. To seek out these funds, officials must refer to the state budget. Again, DHCD can provide assistance in identifying potential grants and with the application process. One can also search the State website at www.mass.gov.

Philanthropies

Seeking funds from a philanthropy is both easier and more complex than seeking grants from the federal or state government. One reason for this is that no single application exists. However, most philanthropic applications are simpler to complete and more flexible than governmental grant applications. There is a catalog of available philanthropies, Massachusetts Grantmakers Directory, available from the Associated Grantmaker of Massachusetts (AGM). There are also several relational databases available, as well as several foundation centers throughout the state. Local libraries should have access to both. The main foundation center is AGM; its website is www.AGMConnect.org.

Corporations

Corporations are an excellent and underutilized source of funds and products. They will give to promote their good name in the community and for income tax benefits. Municipal assessors can be asked for a list of the community's 20 largest taxpayers and fundraisers can concentrate on businesses from this list.

Capital Planning Committee

One local acceptance statute (M.G.L. Ch. 41 s 106B) permits towns to establish a capital planning committee. The duties of capital planning committees are specific, although membership requirements are not. These committees must "annually review the (municipality's) capital improvement program." In many towns, the finance committee also does the capital planning. This is often not an ideal situation, especially given the time commitment required of finance committee members even without considering capital planning matters. One possible solution is for towns to create ad hoc capital improvement committees with a seat reserved for a member of the finance committee. (See Chapter 11.)

Budget – Down to Basics

The budget is a finance committee's major concern and is likely where the bulk of the committee's time will be spent. Depending on whether a given finance committee is responsible for developing the town budget from scratch or for reviewing and making recommendations on a budget developed by the select board, town manager or executive secretary, the finance committee will meet fairly regularly for three to six months before town meeting. Most of that time will be devoted to budget development and review.

Throughout the budget cycle, the committee's main goals should be:

- to optimize the value of each dollar spent;
- to address the town's long range as well as immediate needs;
- to present a balanced budget to town meeting; and
- to present budget recommendations in a clear and readable format, with sufficient detail and explanation so that town meeting members can understand the basic goals, policies, trade offs and constraints that shaped it.

Experienced finance committee members learn to read between the budget's line items and see the policy decisions, and indecisions, built into the numbers. The finance committee should be willing to share that insight with town meeting.

Revenues

Under Proposition 2 1/2, municipalities cannot raise property taxes in excess of 2.5 percent of the total full and fair cash value of all real and personal property in a given community. Finance committees can make the most of limited municipal resources by encouraging thoughtful planning, improved financial management, and increased productivity through computerization and improved work rules. Selective overrides and fee increases can help as well. The rate of revenue increase also depends upon the local development climate and state aid to cities and towns.

Expenditures

Education

Education is typically a town's largest service, ranging from 35 percent in urban districts to 70 percent in more rural areas. The Education Reform Act of 1993 has limited town meeting's latitude in setting the school budget. State and federal education mandates (e.g., special education) as well as the "maintenance of effort" requirements of education reform, place a floor under school budgets, while Proposition 2 1/2 sets the town revenue ceiling.

Legally, town meeting can only vote a bottom line budget for the schools, and cannot compel the school committee to spend this budget allocation on specific programs or line items within the schools' budget. As a practical matter, a well-respected finance committee can sometimes persuade town meeting to get the school committee's attention on areas of concern. For the most part, the finance committee should strive to ensure that schools maintain adequate financial and cost controls, and to encourage the free sharing of budget information between the town and school department, as well as between the school department and town meeting.

Personnel Costs

A majority of any municipal budget (potentially as much as 75 to 80 percent) is spent on salaries, benefits and pension costs. However, finance committees have no direct responsibility or control over collective bargaining and personnel policies. In some towns, the finance committee chair may play a role in planning collective bargaining goals and strategies, but finance committees do not play a direct role in personnel matters.

Nevertheless, finance committees must understand the financial implications of their town's personnel policies and practices. In addition, finance committees should urge the select board and personnel board in their town to follow two basic principles when engaging in the collective bargaining process. First, town negotiators should calculate, consider and justify the full, long-term costs of collective bargaining items like vacation time, sick leave, step raises, and other employee benefits before agreeing to them. Special attention should be paid to employee health insurance cost impacts. Second, they must be prepared to lay out the short- and long-term budget impacts of collective bargaining agreements to town meeting before town meeting is asked to ratify (i.e. fund) the new contracts.

Capital Budgets

Regardless of who has primary responsibility for developing and updating capital budgets, a finance committee's budget recommendations always need to balance capital spending with operating budgets.

Capital budgets represent more than an edifice complex. They embody a wide range of social, political, financial and environmental concerns. To protect a town's capital assets and to promote their optimum utilization, municipalities must give capital needs their due in allocating scarce town dollars. Good capital planning includes budgeting for maintenance and repairs as well as replacement.

Building a new public facility without including sufficient funds in the operating budget for maintenance is fiscal folly. Likewise, it is fiscally unwise to continue pouring ever-increasing maintenance dollars into old, worn out or obsolete equipment when purchasing newer, more efficient equipment would both cut costs and improve service delivery.

Finance committees should encourage their towns to develop capital equipment inventories and regular maintenance and replacement schedules, and discourage town meeting from letting those schedules lapse.

In recommending a capital budget to town meeting, the finance committee should also make sure that town meeting understands the tradeoffs and costs implicit in that budget. For example, a bonding vote should be accompanied by a year-by-year estimate of the repayment schedule. Town meeting needs to understand that voting a bond issue today means less money available for other municipal endeavors until the bond is paid off. Likewise, some estimate of the cost of not making the capital investment should also be included to help town meeting understand why the expenditure is appropriate and economically justified.

Reserves

Fiscal prudence demands that municipal budgets contain sufficient reserves to meet unexpected contingencies. The reserves can be built into department budgets, set aside in special purpose reserves or placed into the town's general reserve fund. Towns can also let some portion of their certified free cash remain unappropriated. In practice, a balance among all these methods works best.

The tradeoff in maintaining reserves is that setting aside large portions of a municipal budget for reserves leaves less available to fund direct town services in the current year. On the other hand, without adequate reserves, unexpected calamities, cost overruns, or revenue shortfalls can result in disruptive and inefficient emergency cutbacks, either in the current fiscal year or in the next.

In each budget cycle, earlier years' actual spending should be examined closely to see which budgets are either consistently under-budgeted or subject to large fluctuations so the finance committee can set a reasonable and responsible level of reserves.

Reserve fund transfers should be used only for truly unexpected contingencies and not to compensate for inadequate budgeting, sloppy management, or predictable spending fluctuations. Above all, the reserve fund should never be treated as a slush fund in order to sidestep town meeting votes. If, for example, town meeting voted $1 million for street repairs when the highway director and the finance committee recommended $1.1 million, the finance committee should deny a reserve fund request for additional road repairs unless the repairs are made necessary by some unforeseen accident like a broken water main.

Likewise, if a given department consistently overspends its overtime budget, a deficit in that account can hardly be said to be an unforeseen contingency. The finance committee may feel compelled to grant the current year's request, but should consider denying future requests for the department's overtime costs unless the expenses are budgeted more accurately and brought under better control.

Fixed Costs

Most town budgets are made on an incremental basis. This means the committee takes the previous year's budget as a starting point, projects estimates of the coming year's changes in revenues and "fixed costs" such as utility bills, collective bargaining salary increases or worker's compensation costs. Any estimated surplus or deficit is then distributed across the town's programs and operating budgets.

Aside from Cherry Sheet assessments such as state and county charges, these "fixed costs" are not always truly fixed. For example, worker's compensation costs can sometimes be cut by improved safety training and better claims supervision, and some utilities costs may be reduced because of better energy conservation practices.

True zero-based budgeting, in which all programs are reviewed annually and budgets are built from the bottom up, often does not work very well in the municipal arena. Many programs are mandated by state or federal law or by the realities of everyday life. However, it does make sense to review each department's mission and resources every few years. Finance committees, town managers, employees and citizens should work together and re-examine priorities, think about whether and how missions can be redefined and how resources can be reallocated to better meet a town's changing needs. This kind of planning, while more difficult in the short term, pays off in the long run if only by keeping the budget process from devolving into a series of ad hoc reactions to year-by-year changes in the town's financial picture.

In some towns, the finance committee is only the budget committee. In others, it is a more general advisory committee that makes recommendations to town meeting on all town meeting warrant articles. As the standing committee of town meeting, the finance committee has a broader and more consistent perspective than the town meeting as a whole, which meets only once or twice a year. Part of the finance committee's role is to point out the fiscal implications of warrant articles. But another of the committee's central roles is to present issues to town meeting in a comprehensive, thoughtful and orderly manner.

Finance committee reports and recommendations should present a clear explanation of all the relevant issues. Whatever the committee's recommendation, the report should highlight key arguments and provide as much relevant information as possible. That way the voters or representative town meeting members can vote at town meeting with at least a basic understanding of what the core issues are for a given warrant article.

Ideally, the finance committee can support its recommendations at town meeting without alienating advocates for opposing viewpoints. Where compromise is possible, the committee should work with the opposing sides to come to a responsible resolution of their differences.

Although the finance committee can and should advocate for its own position, its reports should make it clear that a given position was reached after fair and thoughtful deliberation. *No matter how important or controversial the issue at hand may be, the finance committee must remember that its first responsibility and loyalty is to town meeting and the integrity of the town meeting process.*

Media Relations

Members of committees are public officials and thereby have chosen to put aside some of their privacy. Anything said at an open meeting by a municipal official is subject to being recorded, televised, quoted or published. Therefore, it is important that all officials be careful about what they say in public.

Finance committee members, select board members and town administrators/managers, etc. should work together and speak as a unit whenever possible. It is not always easy for finance committee members to work in conjunction with other municipal departments. Frequently there are conflicts whereby individuals or boards find themselves pitted against each other. However, it is important not to allow these conflicts to be aired in public and to make every effort to achieve a consensus.

It can be beneficial for all local officials to cultivate a good relationship with the local media. The media should be kept informed of important developments, both good and bad. If town officials initiate calls to inform reporters of news before they hear it elsewhere, they can cultivate a relationship in which the reporter is more likely to present the official's side of the story. There are many municipal government issues that the finance committee, select board member and/or chief executive officer should discuss together before dealing with the press.

Committees or boards may find it useful to designate a spokesperson to deal with the press. The spokesperson can reduce mixed messages and can ensure that the agreed upon policies are being relayed to the media. It is important to note when talking to a reporter that you must clearly state whether you are representing a position of the committee or your position as a private citizen.

Some Final Considerations

One last important part of a finance committee member's job is knowing when to leave the committee. A good finance committee member can make a real and important difference in the town's life; someone just going through the motions by rote and habit is no longer serving his or her own or the town's best interests. When committee members find themselves dismissing people or arguments because they have "heard it all before," when enthusiasm gives way to impatience or inattention and/or when absences become increasingly frequent, it is probably time to move on.

Retiring members should ideally give the committee a year's notice and use that year to help groom and break in a successor. Senior committee members, especially the finance committee chair and subcommittee chairs, should make sure that new members receive adequate mentoring and training. Subcommittee chairs in particular should delegate tasks and responsibilities to all subcommittee members, not only in order to lighten their own burden, but to give new members needed hands-on experience.

Being a finance committee member can sometimes be a frustrating task. But it is a job worth doing and worth doing well. Performed with commitment and care, a term on the finance committee is an example of grassroots public service at its democratic best. It can be a rewarding and satisfying way to make one's town a better place to live, as well as a way to sink deeper and sturdier roots in the community.

This chapter was prepared by Marc Levy, Alice Carlozzi, Jennifer Magee and Donald Levitan and was updated by Allan Tosti and Melinda Tarsi.


Chapter 4: Intergovernmental Fiscal Relations: The Commonwealth

The Commonwealth's constitution and laws effectively require the Governor and the Legislature to prepare and maintain a balanced revenue and spending plan for each fiscal year. The governor recommends a comprehensive budget plan to the legislature to start the budget process and the legislature appropriates and otherwise approves use of funds for the year in the form of a general appropriations act. Adjustments to the plan may be made during the course of the year, as outlined in state law. As a general rule, the legislature must provide funds for an expenditure before the expenditure can be made.

The constitution and related laws also provide for the Governor to recommend and the Legislature to approve bond bills to authorize state borrowing for capital projects and for the Governor to develop an annual capital spending plan based on bond acts and other sources of revenue for capital purposes.

The Budget Process and Calendar

Beginning in the fall, each state agency submits spending plans (including proposals for spending and estimates for departmental revenues in the current fiscal year and the immediately following year) to its Executive Office. Those offices then submit their budgets to the Executive Office for Administration and Finance (A&F). Agencies may hold budget hearings and take public testimony. The Budget Bureau, part of A&F, reviews agency spending plans; coordinates the Governor's budget priorities and vision; assesses the state's economic and fiscal condition, including overall available revenue, and makes a consolidated budget recommendation. The Governor reviews the recommendation before the budget bill is filed.

Before the Governor files a budget recommendation for the upcoming fiscal year, the Governor's Secretary for Administration and Finance (A&F) and the House and Senate chairs of the Ways and Means committees meet jointly to develop a "consensus" state tax forecast for the new fiscal year to be used in the Governor's budget and in the recommendations of ways and means committees that come later. Under section 5B of Chapter 29, the meeting takes place by January 15 [or by January 31 for the first budget of a new Governor]. Generally, the meeting includes a public hearing at which economists and finance experts provide testimony on the condition of the economy and prospects for state revenues. The "consensus" forecast also includes the amount needed to amortize the unfunded liability of the state pension system under the statutory schedule and the amounts to be transferred by law for use by the school building authority and the MBTA. The "consensus" revenue testimony and the final agreed-upon amount are helpful to municipal finance officials in understanding the condition of the state economy and its impact locally, and the capacity of the state to fund municipal and school aid programs in the next year.

According to the constitution, the governor must propose and file with the Legislature a budget for the next fiscal year within 3 weeks after the legislature convenes [8 weeks for a new governor], which translates into the 4th Wednesday of January. The resulting House 1 [House 2 in the second year of a two-year legislative session] is the first step in the state budget process, and communicates the Governor's priorities to the public.

In recent years, the House and Senate Ways and Means committees have held joint public hearings across the state in February and March, including a hearing on municipal and school aid accounts, before legislative budget debate begins in April and May.

In some years, the House and Senate adopt a Local Aid Resolution before budget debate that sets forth minimum amounts for the main local aid accounts (Chapter 70 school aid and Unrestricted General Government Aid) as a way to provide some guidance to cities and towns as local budgets are being prepared. Sometimes, legislative leadership makes a public statement and commitment to certain levels of funding in lieu of a formal resolution. This limits the uncertainty of waiting until June or July for a final legislative budget that resolves any differences between the branches on these important accounts.

The House Committee on Ways and Means generally releases a budget recommendation in mid-April. The Committee bill is assigned a new number and sent to the full House for debate; where Representatives may offer amendments. The House usually approves a budget by the end of April or early May.

The Senate generally votes on a budget bill by the end of May, and the two branches attempt to reach agreement on a final compromise budget bill by July 1. There have been years when due to economic conditions or political discord, state budgets have been late. In the case of a late budget, a short-term interim budget is approved to allow state spending in the new fiscal year, including municipal and school aid payments.

The Governor signs or vetoes the Legislature's budget, in whole or in part. By a two-thirds vote in each chamber, the Legislature can override the Governor's veto of a line item (an appropriation), or an outside section (law changes associated with appropriations or changes unrelated to the budget). The Governor can also return budget sections with proposed changes that the Legislature can re-enact unchanged or adopt with further amendment.

For the purposes of the Commonwealth's municipal and school aid programs, finance committee members will see the outcome of the budget process, and program funding reflected in their municipality's preliminary and final Cherry Sheets.

Municipal and School Aid

Most municipal and school aid accounts are part of the Cherry Sheet program managed by the Division of Local Services (DLS) within the Department of Revenue (DOR). Some aid accounts, mainly for schools, are administered by the Department of Elementary and Secondary Education (DESE) and are not part of the Cherry Sheet program. Cherry Sheets are the official notification under state law from the Commissioner of Revenue of the next fiscal year's estimated state aid and assessments to cities, towns, and regional school districts. The purpose of the Cherry Sheet program is to ensure that local budgets reflect realistic estimates of the amount of revenue a municipality or regional school district will receive from the state during the upcoming fiscal year as well as the amounts the municipality or regional school district will be assessed for participating in certain programs. Because the Cherry Sheets are an integral part of a municipality's budget, finance committee members should have a clear understanding of their community's Cherry Sheet aid and assessments.

It is also important that finance officials closely monitor how their local aid numbers might change during the state budget process. Finance committee members should be aware that the Division of Local Services now posts local aid estimates at each stage of the state budget process on its website, www.mass.gov/dls. For example, initial estimates are issued based on the Governor's budget, followed by estimates based on each phase of the legislative process. Once the final state budget is enacted, final Cherry Sheet estimates are issued. During a period of fiscal distress, state law empowers the Governor to declare a revenue shortfall and make unilateral cuts in state spending without action by the Legislature. While mid-year cuts to municipal and school aid programs are uncommon, they have occurred during severe recessionary periods.

DOR is responsible for notifying municipalities of their Cherry Sheet aid and assessments on forms CS 1-ER (aid/receipts) and CS 1-EC (assessments/charges). DOR notifies regional school districts of their receipts and charges on form CS 2-ER. The Tax Rate Recapitulation Sheet, filed by local assessors with the Department of Revenue, Division of Local Services, to certify property tax rates, must reflect the aid and assessment amounts contained on the Cherry Sheet forms distributed to municipalities. (See Appendix L.)

Cherry Sheet Receipts

There are three basic types of aid programs on the Cherry Sheet: distributions, reimbursements and offsets. Distributions provide funds on a formula basis. Reimbursements provide full or partial funding for specific program expenditures. Offset items are amounts that constitute categorical aid and must be spent for specific programs. Offset items may be spent without appropriation in the local budget. All other receipt items on the Cherry Sheet are considered revenues of the municipality's or the regional school district's general fund and may be spent for any purpose, subject to local appropriation.

Cherry Sheet Assessments/ Charges

M.G.L. Ch. 59, Section 21 also requires the Commissioner of Revenue to provide municipalities and regional school districts with advance estimates of state assessments and charges and county tax assessments. Local assessors are required to use these figures in determining the local property tax rate.

Cherry Sheet form CS 1-EC notifies municipalities of the estimates of charges from the state and county governments. Regional school districts are notified of their assessments on form CS 2-ER. In certain assessment programs, after Cherry Sheets are issued, adjustments to the actual assessments are applied as final data become available from the administering agencies.

Cherry Sheet Payment/ Assessment Schedule

Cherry Sheet payments and assessments are generally made on a monthly basis, depending upon the category, although a few are made quarterly or annually. Final adjustments to payment and assessment amounts are usually made late in the year. A payment schedule for Cherry Sheet programs is available on the Division of Local Services website.

The DOR enforces the annual provision in the State budget language that allows the withholding of Cherry Sheet aid to municipalities that have not submitted the prior year's Schedule A to the Department of Revenue. Aid withheld is distributed to the appropriate municipality once the report has been submitted and accepted by the Department of Revenue.

County Assessments Procedures & the County Advisory Board

The 351 cities and towns of the Commonwealth are organized into 14 counties that were established mainly in the 1600s as administrative units of government that provided public services and derived revenues from member cities and towns.

Until the 1970s, they were responsible for operations of certain courts, jails and houses of correction and registries of probate and deeds. Some operated agricultural schools, hospitals and other specialized entities. County governments assessed constituent cities and towns for part of the cost for services through a county tax handled as a Cherry Sheet assessment. Over the next few decades, judicial personnel and district attorneys were transferred to the state and some court buildings and related maintenance personnel were likewise transferred.

Beginning in 1997, the Legislature abolished seven counties and transferred registries of deeds, sheriffs and court maintenance functions to the Commonwealth. In those cases in which debts and obligations exceeded cash and real estate transferred to the state, amortization schedules were established for the recovery of amounts expended by the Commonwealth by way of continuation of the county tax assessment.

The seven county governments abolished were Berkshire, Essex, Franklin, Hampden, Hampshire, Middlesex, and Worcester counties. In FY2010, the remaining sheriffs departments of Barnstable, Bristol, Dukes, Nantucket, Norfolk, Plymouth and Suffolk counties were transferred to the state. With the exception of Suffolk County where there are no remaining departments, the six remaining counties will continue to operate as they have historically. Excluding Nantucket (which is a county of one community), the other five counties assess their constituent municipalities for part of their budgets and have limited powers relating to borrowing and other financial matters.

The county budget approval process is undertaken by the county advisory board on county expenditures in Bristol, Dukes, Norfolk and Plymouth counties. The county advisory board has authority to increase, decrease, or revise the annual and supplementary budgets submitted by the county commissioners. This board is composed of representatives from each of the municipalities of the county. These members include: select board, town council members, city managers or their designees, and mayors or their designees. Similarly, the county budget approval process is performed by the county commissioners and the assembly of delegates in Barnstable County. In Nantucket, the select board serve as county commissioners, and the town finance committee serves as county review committee. Generally, the role of the municipal finance committee is confined to review and comment.

The county budget process starts with the collection of requested appropriations from all county departments by the county commissioners. The commissioners review the requests, hold public hearings and vote their recommendations that are submitted to the advisory board. The advisory board then reviews the commissioners' recommended budget, holds a public hearing and finally votes on the budget for the next year. Each member can enter a "Yea" or "Nay" vote with respect to approval of the county budget. Each municipality has a weighted vote proportional to its property value. A majority vote is required to approve the county budget.

Once the county tax levy is set (usually in September), tax statements are sent by county commissioners to their member municipalities. The county tax is paid directly by member municipalities; no individual property tax owner receives a "county tax bill."

County Tax Assessment Formula & the Town Treasurer

A municipality's county tax assessment is based upon its equalized valuation (EQV) as a share of the total county EQV. These EQVs are incorporated into the county tax assessment formula in order to determine the member municipalities' share of the total county tax. Once the assessment has been determined, the county commissioners send local treasurers the member communities' county tax assessment. County taxes are paid on a semi-annual basis in November and May.

Limits on Cherry Sheet Assessments

Under state law, the following agency or county assessments cannot increase by more than 2.5% of a prior year's actual assessments: county tax, mosquito control projects, air pollution districts, Old Colony Planning Council, Massachusetts Bay Transit Authority, Boston Metropolitan Transit Authority, and regional transit authorities. Beginning in fiscal 2015, the cap has been changed for the Metropolitan Area Planning Council. However, administering agencies or authorities can increase their total assessments by more than 2.5% if they can demonstrate to the DOR that the increase is due to the provision of new services.

Proposition 2½

State law enacted in 1980 (Proposition 2½) places strict limits on the amount of property tax revenue a city or town can raise and how much the property tax levy can be increased from year to year. Throughout the budget process, a municipality should understand the impact of the law on its ability to pay for budgetary expenditures. (See Chapter 6.)

The State Auditor's Office and the Division of Local Mandates

Section 27C of Chapter 29 of the General Laws (Local Mandates Law enacted in 1980 as part of Proposition 2 1/2) provides for a Division of Local Mandates in the Office of the State Auditor. This Division is charged with evaluating new state laws and regulations to see if they impose new costs on cities and towns, regional school districts or educational collaboratives that are not covered by state funding. If so determined by DLM, they must be fully funded by the Commonwealth or subject to voluntary acceptance. There are a number of exemptions to the scope of the mandate statute, including application to laws and rules approved prior to 1981. Following a DLM determination of an unfunded mandate, a city, town or district may request an exemptio from compliance in Superior Court.

Financial Information and Other Resources

Each level of government (federal, state, and local) enacts laws. A body of laws referred to as municipal laws regulates municipal governments. The intent of all enacted laws is to impose certain regulations on the manner by which a community is governed. Municipal laws include not only the laws of the state, but also the laws of the town or city, otherwise known as bylaws and ordinances. By definition, a bylaw is a local law or a municipal statute of a town.

Today, federal, state and local websites provide a great array of timely and useful information for local officials to use in preparing and updating budgets. The Division of Local Services (DLS) website includes current and historical Cherry Sheet information as well as a rich database on local finance. The Department of Elementary and Secondary Education (DESE) website includes information on Chapter 70 school aid and other education aid and grant programs. The state's main website [www.mass.gov] provides links to these agencies and others that may have helpful information. The MMA website [www.mma.org] provides the latest news on municipal finance.

At the local level, bylaws, ordinances and a variety of budget and finance information are available to the public on the municipal website. For links to cities and towns, visit *www.mma.org*.

Office of the State Treasurer and Receiver General

The Office of the Treasurer is comprised of multiple departments and agencies that have an important impact on local government. These include the Department of Cash Management that is responsible for managing the Commonwealth's daily cash flows and making monthly and other scheduled local aid and local option tax payments to municipalities, regional school districts and charter schools, as well as quarterly payments to municipalities. A list of payments by month to individual cities, towns and schools can be found on the department's website.

The Office of the Treasurer also includes the Massachusetts School Building Authority that manages the state's school construction program, the Massachusetts Clean Water Trust that helps fund local water projects by providing low-interest loans, the State Lottery Commission that operates the Lottery to provide gaming funds to help fund municipal and school aid programs, and the Pension Reserves Investment Management Board (PRIM) that manages the Pension Reserves Investment Trust (PRIT) Fund, which invests the assets of various state and local retirement funds.

The office of the Treasurer also includes a Debt Management Department responsible for managing the Commonwealth's short-term and long-term borrowing needs. Part of the work of the Department is securing bond funds to help pay for the state's capital investment program, including capital programs for local governments. A useful resource in the debt management area of the Treasury website are the Official Statements, Investor Disclosure and other key financial documents that provide detailed and updated information on the operation and financing of state and local government.

Secretary of the Commonwealth

The Secretary of the Commonwealth administers state election laws and is responsible for publishing and making available certain documents and databases on the operation of state and local governments in Massachusetts. The Secretary also oversees the state's Public Records Law.

Publications that may be of interest to local officials are: the Code of Massachusetts Regulations, the Massachusetts Register, the Central Register, Advance Publication of Current Acts and Resolves, and the Cumulative Table. The following are brief descriptions of these resources. Some of these publications require payment of a subscription.

Code of Massachusetts Regulations (CMR) is the complete set of administrative law (regulations) promulgated by state agencies pursuant to the Administrative Procedures Act (Chapter 30A M.G.L). Regulations can also be found on state agency websites.

Massachusetts Register is the bi-weekly publication mandated by the Administrative Procedures Act

(Chapter 30A M.G.L). The register publishes new and amended regulations, notices of hearings and comment periods related to prospective or draft regulations and a cumulative index of regulatory changes for the current year. The register also publishes notices of public interest, as well as opinions of the Attorney General and Executive Orders.

Central Register: Is the weekly source for information about state, county and municipal contracts being put out to bid for the design, construction and reconstruction of public facilities in the Commonwealth. Invitations to bid, lists of contractors picking up specifications on a weekly basis, and final awards of contracts are all published. Proposals and advertisements for the lease, sale or transfer of real property are published, as are lists of certified minority and women contractors and contractors who have been debarred from state work.

Advance Publication of Current Acts and Resolves: provides publication of laws and resolves enacted during a current legislative session as required by M.G.L. Ch. 5, s 3. The Secretary of the Commonwealth publishes these session laws immediately after enactment and distributes "pamphlet" editions of the advance copies during the legislative session. The "pamphlets" include a cumulative list containing the bill number, title, chapter number and enactment date, and a list of Massachusetts General Laws amended by the current legislative actions.

Single copies of laws are available at the State Bookstore and at the Western Secretary of the Commonwealth. Bound editions of all the laws enacted during each session are published a few months after the session has ended.

The Cumulative Table: Informs subscribers of changes and amendments to all state regulations. Included are the subject matter, issue and date of the Massachusetts Register in which the change was printed. Each monthly issue of the Cumulative Table contains an order form allowing subscribers to order an amendment directly from the State Bookstore.

An important feature of the Cumulative Table is that it notifies subscribers of the promulgation of emergency regulations. Regulations adopted on an emergency basis, though they may be temporary, have the full force and effect of law.

Office of the Attorney General and the Municipal Law Unit

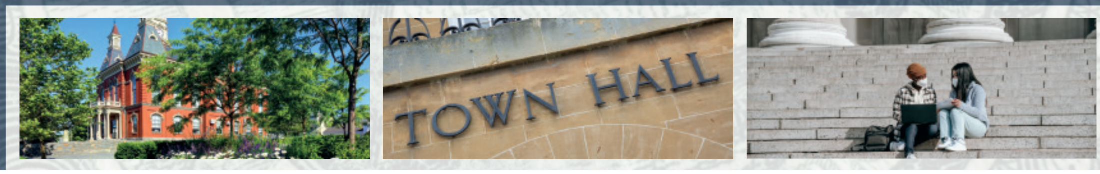
The Municipal Law Unit is part of the Attorney General's Government Bureau. The Unit carries out the Attorney General's statutory duty to review local bylaws and zoning bylaws as well as proposed municipal charters and their amendments. It decides whether the proposals are consistent with the constitution and the laws of the Commonwealth. If an inconsistency between the proposed amendments and state law exists, the amendments or portions thereof will be disapproved.

The Municipal Law Unit advises the Attorney General on matters relating generally to municipal law and local government. This includes pending or threatened litigation in which the legality of state or local laws is challenged. The Attorney General is permitted by statute to intervene in such cases.

Whenever a town seeks to adopt or amend a charter pursuant to the Home Rule Procedures Act (Chapter 43B M.G.L) it must submit it to the Attorney General for his/her opinion as to the consistency between the charter (or charter amendments) and state law.

The Unit works with town attorneys and local public officials to help communities to avoid legal problems, to comply with state law, and to function effectively in the best interests of the citizens of the Commonwealth. Unit staff are not authorized to give legal advice other than as prescribed. Nevertheless, time permitting, they are willing to discuss municipal law issues with municipal attorneys and local public officials and to suggest other resources that might offer appropriate guidance and help.

This chapter was prepared by Representative Paul Casey, Senator Marc Pacheco, Daniel E Donahue, Robert Wright, Marilyn Browne and Lisa Juszkiewicz and updated by John Robertson.



Chapter 5: School Budgeting and Education Reform

Introduction

Since the passage of the Education Reform Act of 1993, municipalities have had to meet mandatory school spending requirements when preparing their budgets. The original policy goals of education reform were twofold.

- To achieve adequate funding for all local and regional school districts over a seven year period.
- To bring equity to local taxation effort based on a community's ability to pay. In many cases, achieving adequate school spending required local governments to increase their contributions to education in conjunction with increases in state education aid. However, certain communities, with a limited ability to pay, were allowed to decrease their local spending on education, with the state providing enough aid to make up this difference and move the community closer to an "adequate" level of school spending.

Although FY2000 marked the seventh and last year of prescribed state funding increases contained in the Education Reform Act, the school finance formula remains operative in statute. However, annual budget language and education aid appropriations since FY2000 have overridden the statutory funding formula in recent years. In FY2007, the "aggregate wealth model" was instituted that uses updated property values and personal income data to address issues of inter-municipal equity so that communities with similar ability to pay receive similar levels of state aid and pay similar local contributions. The aggregate wealth model has been used to determine local contribution requirements and remains in place. Similarly, the *Student Opportunity Act* (SOA) that was enacted in 2019 codified the aggregate wealth model and made other changes to the Chapter 70 formula based in large part on the recommendations of the Foundation Budget Review Commission (FBRC). The updated formula includes three parameters to be specified in each year's general appropriations act.

- Total state target local contribution, the percent of the total state foundation budget that is to be funded through required local contributions, provided that the percent shall be specified annually in the general appropriations act but shall not exceed 59%.
- Effort reduction, the percentage of excess effort to be reduced in a given fiscal year, as specified annually in the general appropriations act, and applied to each municipality with excess effort in the calculation of the required local contribution. For municipalities with required contributions above their targets, the equity component of the formula is reduced by 100% of the gap.
- Minimum aid, the greater of: (i) a district's minimum aid adjustment less its base aid; and (ii) a district's foundation enrollment multiplied by a per-pupil dollar amount specified annually in the general appropriations act, but which shall not be less than $30 per pupil.

Foundation Budget

foundation budget calculations allocate fixed spending target amounts per pupil for teachers' salaries and benefits, support staff salaries and benefits, utilities, maintenance costs and books and equipment, among other things.

These calculations are adjusted annually for inflation and also take into account the school district's pupil characteristics and the regional labor market. For example, the foundation budget factors in an added cost for educating English learners (ELLs), students enrolled in vocational programs, and low income pupils. For the latter, a student's low income status is contingent on a student's household income and participation in one or more for the following state-administered programs: Supplemental Nutrition Assistance Program (SNAP); Transitional Assistance for Families with Dependent Children (TAFDC); Department of Children and Families (DCF) foster care program; or certain MassHealth (Medicaid) programs. Unlike foundation enrollment, low income headcounts are assigned to the district where the pupils are actually enrolled (and where the extra costs occur), even if they are tuitioned-in from another district. It also factors in additional costs for special education pupils based on assumed enrollment percentages for in-district and out-of-district programs. The salary components of the foundation budget calculations are then adjusted upward based on regional wage levels compared to state average wage levels. The total of all the foundation budget components makes up the overall foundation spending goal for each school district.

SOA establishes new, higher foundation budget rates in five areas: benefits and fixed charges, guidance and psychological services, special education out-of-district tuition, ELs, and low income students, all to be phased in over multiple years. The number of tiers for the low income increment rates is increased from ten to twelve; districts with higher concentrations of low income students benefit from higher rates.

Determining Ability to Pay

As stated earlier, state budget language altered the measurement of local ability to pay to rely on both property wealth and the income of residents. This method is referred to as the "aggregate wealth" model and provides for equal weighting of property wealth and personal income in the formula. The formula establishes a statewide portion of the foundation budget to be funded through local contributions at 59% with state aid covering the remaining 41%.

Once the statewide local contribution amount is determined, percentages are calculated for both property wealth and income such that in the aggregate each contributes exactly half of the required statewide contribution. These percentages are then applied to each community's actual equalized property valuation and the aggregate personal income from Department of Revenue income tax data to determine the expected contribution or "target local share", with the maximum local share set at 82.5% of the foundation budget. The "target aid share" represents the remaining share of the foundation budget to be covered by the state.

Local ability to pay then is a function of both current property wealth as measured by equalized valuation and the community's aggregate personal income as reported to the Department of Revenue (DOR) for state income tax purposes. Equalized values are prepared by DOR every two years and are estimates of property values that control for differences in local assessing practices and revaluation schedules.

Municipal Revenue Growth Factor

The municipal revenue growth factor (MRGF) is an estimate of the total percentage increase in a municipality's general purpose revenues from one year to the next that is critical to estimating required increases in school spending for budgetary purposes. The MRGF calculation is based on the combined percentage increase of three separate revenue components:

Tax Levy
Increases are based on an automatic 2.5% increase in the previous year's levy limit, plus an estimate of new levy growth based on a three-year average of new growth as a percentage of the prior year's levy limit. Overrides occurring after FY1993 and all debt exclusions are excluded from the tax levy calculations.

General Revenue Sharing
Increases or decreases are based on the annual change in general revenue sharing as calculated by the combined change in two Cherry Sheet programs: unrestricted general government aid (formerly lottery and additional assistance) and state-owned land. Initial estimates for these revenue increases are based on the state aid figures appearing in the Governor's budget, which is typically released in late January.

Unrestricted Local Receipts
The seven local receipt categories used in the MRGF calculation are: motor vehicle excise, other excise

(includes room occupancy and meals tax), penalties and interest on taxes and excise, payments in lieu of taxes, fines and forfeits, investment income and other recurring miscellaneous receipts. User fees such as water or sewer receipts are excluded since they are intended to offset the cost of providing particular municipal services. The growth in local receipts is measured by comparing the budgeted receipts in the prior year to those budgeted in the current year (as estimated on the annual tax rate recap).

State Aid

A municipality's growth in foundation budget and its ability to pay determine the amount of additional Chapter 70 aid that the community will receive. The aggregate wealth model calculations described above are used to award new aid to communities receiving less aid than their relative wealth or ability to pay indicates they should. For those below target aid levels, recent state budgets have moved these communities incrementally toward their target aid amounts. The formula first increases the prior year required local contributions by the MRGF to yield a preliminary local contribution. This figure is compared to the target local contribution (See Determining Ability to Pay above) and if the preliminary contribution exceeds the target local contribution, the preliminary contribution is reduced by 100% of the difference to yield the required local contribution. This percentage decrease is known as "effort reduction" and is set annually in the general appropriation act. If the preliminary contribution is less than the target local contribution, then the community is required to increase its contribution by the growth factor. If the preliminary contribution is substantially below the target local contribution, then additional increases beyond the growth factor are required.

The difference between the required local contribution and the foundation budget is provided by the state in the form of "foundation aid." If the required local contribution district's prior year Chapter 70 aid is less than the district's foundation budget, then the state awards foundation aid to cover this gap.

Detailed Chapter 70 Program aid and spending requirements are found on the Department of Elementary and Secondary Education (DESE) website (*https://www.doe.mass.edu/finance/chapter70/*).

Net School Spending

The total education reform school spending requirement is called "net school spending." This figure is the combination of the minimum required contribution from local revenues plus state Chapter 70 education aid. Net school spending does not include school transportation or school construction costs. These costs vary significantly across the state and are not included in the foundation budget, although school construction costs and regional transportation expenses are reimbursable through other state aid programs. Net school spending can be met through a combination of direct appropriation to the school department budget and indirect costs appearing in other municipal budgets. For example, school health and property insurance costs may appear in the municipal treasurer's budget, yet they should be included in the calculations to meet net school spending.

To determine the school department appropriation necessary to meet net school spending, allowable indirect costs must first be calculated. Per DESE Regulation 603 CMR 10.04, allowable indirect costs include costs such as school choice and charter school tuition payments, school employee benefits, property insurance, school maintenance costs incurred by other departments and administrative costs such as accounting, payroll and data processing. Allowable costs and the available methods for calculating these costs are provided on the DESE website: http://www.doe.mass.edu/finance/accounting. Deducting these indirect costs from required net school spending yields the school department operating appropriation needed to meet net school spending.

It should be noted that if municipalities receive any general fund school revenues, such as tuition payments from other towns or charter school reimbursements (school choice revenues are considered special revenue funds), these funds must be spent in addition to net school spending. School transportation and capital appropriations must be added to the school operating appropriation to arrive at the total school department appropriation.

If final Chapter 70 aid figures exceed the amount originally estimated when determining the school department budget, the increase does not necessarily have to be appropriated to the school department. This depends on where the municipality stands with regard to the revised net school spending requirement (required net school spending will be revised to reflect any additional aid). If, for example, the municipality approved a budget with a higher than required local contribution, the additional aid may be used for other purposes provided the original school department appropriation is enough to meet the revised net school spending requirement.

For those municipalities and regional school districts that fail to meet at least 95% of their net school spending requirement, state school aid may be reduced in the following year. If spending is above 95% of net school spending, but below 100%, the shortfall must be carried forward and spent in addition to the subsequent year's required net school spending. In many cases, however, actual spending is above required net school spending so the above penalty provisions affect relatively few municipalities. Budgeted school spending in the current year and actual spending from the prior year are reported to DESE on the End-of-Year Financial Report on Schedules 19 and 1, respectively.

School Construction Grants

In July of 2004, the Legislature approved major reforms to state school construction finance laws (Chapters 208 and 210 of the Acts of 2004). The legislation created the Massachusetts School Building Authority (MSBA) that is chaired by the state Treasurer and includes the Secretary of Administration and Finance, the Commissioner of Elementary and Secondary Education and four other members. State funding for local school projects now comes from a combination of state borrowing and dedication of a portion of state sales tax revenues. State reimbursement rates vary depending on a community's ability to pay as measured by local wealth indicators compared to state averages. The indicators used are per capita income as reflected on DOR state tax returns, property wealth as determined by equalized property valuations per capita and the proportion of low income students in the district as defined by federal eligibility for free or reduced price lunch. MGL Chapter 70B.

Payments for ongoing projects currently receiving reimbursements will continue as scheduled, ending in FY2024. New projects are eligible for "progress payments" where the Authority reimburses districts for eligible project costs during construction. After entering into a Project Funding Agreement with the MSBA, a community submits project costs incurred and paid locally. After auditing the submitted invoices, the Authority reimburses the community for the state's share of eligible project costs. Typically, this occurs within 15 days of submission of complete documentation to MSBA. Consequently, when these communities finish their projects and convert short-term notes to long-term bonds, the bond issue will be only for the local share.

Special Education Circuit Breaker

The special education circuit breaker program (MGL Chapter 71B §5A) is intended to provide reimbursement to school districts for the cost of individual special education students in excess of four times the state average per pupil foundation budget. The reimbursement formula provides for a 75% reimbursement of the amount in excess of four times the state average per pupil foundation budget. The circuit breaker replaces the old "50/50" special education reimbursement program that provided for a 50% state reimbursement only for residential school placements. In contrast, the circuit breaker provides reimbursement for all high cost special education pupils enrolled in in-district and out-of-district programs.

For budgetary planning purposes, school districts should reduce the special education appropriation by the estimated amount of the circuit breaker reimbursement. When state reimbursements are received, they are placed in a special fund called the "State Special Education Reimbursement Fund" and may be spent without further appropriation. Initially, expenses incurred are charged to the regular school committee appropriation and then these expenses are transferred to the Fund as the state reimbursements are received. The amount of the reimbursement is based on the costs incurred in the prior year in excess of four times the state average per pupil foundation budget.

As these costs tend to be volatile, finance committees should review the actual revenues and expenditures to see how well they match estimates. Another worthwhile practice is to allow the special education circuit breaker reimbursement fund to accumulate a balance so this can be drawn on when unexpected special education costs arise. Current DESE regulations allow school districts to carry one year's worth of special education reimbursements forward into the next fiscal year.

MGL Chapter 40, Section 13E provides for the establishment of a Special Education Stabilization Fund. The law enables municipal and regional districts to establish a reserve fund that can be used in future years for unanticipated or unbudgeted costs of special education, out-of-district tuition or transportation. Information on establishing, funding, making payments, and reporting activity from the Special Education Stabilization Fund are covered on DESE's website, http://www.doe.mass.edu/finance/circuitbreaker/stabilization.html.

Collective Bargaining

The Education Reform Act amended MGL Chapter 150E as it relates to collective bargaining with school employees. Though Chapter 150E defines the school committee as the legal "employer" for the purposes of negotiating with school employees, municipal officials should be aware that Chapter 150E allows a town's chief executive officer to participate and vote as a member of the school committee in collective bargaining. If the town does not have a town manager or administrator, then the chairman of the select board (or designee) shall participate and vote.

In a regional school district, the superintendent must notify the chief executive officers, or the chairs of each select board where there is no town administrator or manager, of the member towns at least 21 days prior to the start of negotiations. The superintendent's notice shall designate a time, place, and date of a meeting to be held by the regional school district at which the executive officers or select board chairs elect one of their own to represent municipal interests in collective bargaining. See DESE Regulation 603 CMR 41.04 for further information on the municipal representative in regional school bargaining.

In either a local or regional school district, however, unless the school committee chair appoints the municipal representative to the negotiating subcommittee, the municipal representative does not have a seat at the bargaining table. Rather, the statute allows the municipal representative to participate and vote as a member of the school committee when the committee as a whole takes up the collective bargaining agreement. Nonetheless, the municipal official has the same right to be kept informed about the progress of negotiations as any other committee member.

Regional School Assessments

When the Education Reform Act was enacted in 1993, it changed the way regional school assessments were determined. Assessment calculations for member towns should begin with the wealth-based minimum required contributions of each community. The state Supreme Judicial Court has affirmed that the Education Reform assessment methodology supersedes the assessment formulas prescribed in regional school agreements. The required net school spending portion of the regional budget should be allocated to members based on their minimum contributions, plus the total amount covered by Chapter 70 education aid. Any planned spending above net school spending requirements is then allocated among the member communities based on the regional school agreement. The agreement also dictates how non-net school spending such as capital and transportation costs are allocated among the member communities. The regional district may opt to prepare its assessments based solely on the regional agreement, but this requires unanimous agreement of the member communities each year (MGL Chapter 71, Section 16B).

School Committee's Role

A factor worth noting when preparing the budget plan is the line-item autonomy of the school committee. Though town meeting may approve a detailed school budget, to the extent that these line-item appropriations relate to curriculum or school operating costs, the school committee is not bound by them and can transfer funds among them.

If the school budget is voted as a single line-item, the school committee may decide to use more of the appropriation to support ineligible net school spending costs such as transportation and capital projects. Case law suggests that the school committee cannot make these transfers — thus jeopardizing compliance with net school spending — if their municipality's town meeting establishes separate appropriations for operating costs (net school spending), transportation costs and capital projects.

Originally prepared by Rick Kingsley, this chapter was updated by Melinda Ordway and Robert O'Donnell and represents the opinions of its authors and not necessarily those of the Department of Revenue or Department of Elementary and Secondary Education.

Chapter 6: PROPOSITION 2½

Introduction

Enacted by Massachusetts voters in 1980, Proposition 2½ fundamentally changed the municipal fiscal landscape, revolutionizing the budget process in the Commonwealth's cities and towns.

Before Proposition 2½, expenditure budgets in most communities were adopted in the spring with little, if any, analysis of projected revenues for the next year and were driven primarily by departmental spending requests. The reason was that property taxes could always be levied at whatever amount was needed to balance the budget when the assessors set the tax rate in the fall. Proposition 2½ dramatically changed this process by limiting the property tax revenues cities and towns could legally assess each year to support their budgets.

What is Proposition 2½?

Proposition 2½ (General Laws Chapter 59, §21C) establishes two types of restrictions on the annual property tax levy. First, communities are prohibited from levying more than 2½ percent of the total full and fair cash value of all taxable real and personal property in the community. This limit is called the levy ceiling. Second, and more importantly, a community's levy is constrained in the amount it may increase from one year to the next. The maximum amount a community can levy in any given year is called the levy limit. The levy limit is always below, or at most, equal to the levy ceiling. It may not exceed the levy ceiling.

Under Proposition 2½, a community's levy limit increases automatically each year by two factors:

- an increment of 2.5 percent of the prior year's levy limit, and
- *a dollar amount derived from the value of new construction and other growth in the local tax base since the previous year that is not the result of property revaluation. This "new growth" increase, which varies from year to year, recognizes that new development often results in additional municipal costs, such as, for example, where the construction of a new residential subdivision causes an increase in school enrollment or public safety expenses.*

Proposition 2½ does provide communities with flexibility to levy more than their levy limits. With two exceptions, all such additional taxes must be approved by the voters at an election by a majority vote. The law establishes two types of tax increases: overrides and exclusions, and also details the election procedure a community must follow to pass overrides and most exclusions.

A levy limit override is used to obtain additional funds for annual operating budgets and fixed costs. An override increases the community's levy limit for the fiscal year voted and becomes part of the base for calculating future years' levy limits. The result is a permanent increase in the amount of property taxes a community may levy. If the override is to fund a stabilization fund, however, two- thirds of the select board must vote to allocate the additional levy capacity from the override to the same purpose in each future year for it to be included in the levy limit for that year. See Division of Local Services (DLS) Informational Guideline Release 17-20, Stabilization Funds. The override may be for any amount, so long as the new levy limit, including the override, does not exceed the overall levy ceiling of 2.5 percent of the full and fair cash value of the tax base. An override question is placed on the ballot by a majority vote of the select board and must follow the language specified in the law.

The second option, an exclusion, may be used to raise additional taxes to fund capital projects only. This includes public building and public works projects, as well as land and equipment purchases. A debt exclusion is used to raise additional taxes for the annual debt service costs of projects funded by borrowing. Debt service includes payments of principal and interest on permanent debt and interest on temporary debt. A capital outlay expenditure exclusion is used when the project is funded by an appropriation. Exclusions may be used by a community to fund its own capital spending, and its assessed share of capital spending by a regional school district or other regional entity of which it is a member, whether financed by borrowing (debt) or within the annual budget (capital expenditure outlay). Unlike overrides, exclusions do not become part of the levy limit and therefore, they do not result in permanent increases in the amount of property taxes a community can levy.

Exclusions are temporary property tax increases. The additional amount is added to the levy limit only during the life of the debt in the case of a debt exclusion, or for the year in which the project is budgeted in the case of a capital outlay expenditure exclusion. Also, unlike overrides, the amount of an exclusion is not limited. Exclusions may increase the tax levy above the levy ceiling. The language to be used for both exclusion questions is also found in Proposition 2½. Both exclusions require a two-thirds vote of the select board to be placed on the ballot.

Two types of exclusions do not require voter approval. The first is a special debt exclusion that allows a community to raise its debt service costs for water or sewer projects outside of the levy limit or ceiling if water or sewer rates are reduced by the same amount. The second is a special debt, or capital outlay expenditure, exclusion for communities with programs to assist homeowners to repair or replace faulty septic systems, remove underground fuel storage tanks or remove dangerous levels of lead paint in order to meet public health and safety code requirements. Under the programs, local boards of health contract for the work and homeowners repay all project costs by having a portion added to their property tax bills, with interest, for up to 20 years. The amounts appropriated to fund the programs, or the debt service costs on any borrowings, are automatically raised outside the levy limit or ceiling.

Proposition 2½ also allows a community to reduce its levy limit by passing an underride. An underride decreases the levy limit for the year by the amount voted. This reduces the base for calculating future years' levy limits, which results in a permanent decrease in the amount of property taxes the community may levy. An underride question requires a majority vote of the select board to be placed on the ballot. It may also be placed on the ballot by the people using a local initiative procedure, if one is provided by law. Underrides are approved by majority vote of the electorate.

How Proposition 2½ Affects Budgets

Proposition 2½ does not limit appropriations, only property taxes, and no other statute requires that the local appropriating body adopt an annual expenditure within a specified revenue figure. Since the levy limit, state aid, local receipts and other revenues that support the budget are not final at the time the budget is adopted, compliance with Proposition 2½ cannot be determined until the tax rate is set several months into the new fiscal year. At that time the budget must be balanced within the levy limit.

In the interest of prudence, however, communities should attempt to adopt expenditure budgets in the spring within reasonable estimates of property tax and other revenues likely to be available for the year. Nevertheless, budgets with a higher level of appropriations than supported by estimated revenues could be in place at the beginning of the fiscal year. Appropriations are valid spending authority in such cases until they are rescinded by the local appropriating body. Departments may continue to spend at appropriated levels even though spending cuts will probably be needed to bring the budget into balance. Alternatively, additional revenue may be sought by placing an override or exclusion before the voters. Approval of the ballot question will bring the budget into balance and allow a tax rate to be set. However, defeat of such a question does not, of its own force, rescind the budget as a whole or any particular appropriations made for the purposes described in the question. Difficulties can occur in resolving any differences in the spending decisions made by the appropriating body and taxing decisions made by the voters. This can create uncertainty in the delivery of municipal services and delays in setting the tax rate.

Contingent Appropriations

Towns can use another budgeting option that eliminates the need for town meeting to take further action on the annual budget or special purpose appropriations after an election. When voting specific appropriations, town meeting can decide that they will take effect only if additional property tax revenues to support them are approved by the voters, i.e., the appropriations are contingent upon later approval of a Proposition 2½ ballot question. Voter action on the question then determines whether those appropriations are effective grants of spending authority for the year.

This option recognizes the special difficulties towns encounter in adopting a balanced budget and revisiting the budget after an election. Town meeting action on the budget, which is usually submitted by the finance committee, is not confined to the recommended amounts. Because of the broad scope of action afforded under warrant articles and the advisory status of the finance committee's budget recommendations, town meeting almost always has the power to vote appropriations exceeding the recommended amounts and estimated available revenues. [School Committee of the Town of Hanson v. Moderator of the Town of Hanson, Plymouth Superior Court C.A. 90-0922A and 90-0923B (1991)](Moderator cannot limit town meeting action on budget recommendations by requiring motions increasing an item to include an offsetting decrease in another item or a provision making increased appropriation contingent on Proposition 2½ override.) Moreover, a special town meeting must be called whenever budget cuts or supplemental appropriations are needed or desired. This can result in added expenses, as well as delays in finalizing the budget and setting the tax rate.

Contingent Appropriation Requirements

The use of contingent appropriations is governed by General Laws Chapter 59, §21C(m). The basic requirements are as follows:

- All or any portion of an appropriation from the tax levy, available funds or borrowing may be voted contingent on the subsequent approval of a Proposition 2½ override or exclusion question.
- The purpose stated in the question must be substantially the same as the purpose stated in the appropriation vote;
- The appropriation is not effective until the question is approved, i.e., the funds cannot be spent before approval;
- The deadline for obtaining voter approval of override or exclusion questions for contingent appropriations made at an annual town meeting is September 15. More than one election may be held, but the appropriation is null and void if the related question is not approved by September 15;
- The deadline for obtaining voter approval of override or exclusion questions for contingent appropriations made at any other town meeting is 90 days after the close of the town meeting at which the appropriation vote was taken. More than one election may be held, but the appropriation is null and void if the related question is not approved by the end of the 90 day period, and;
- If the contingent appropriation was made from the tax levy, the tax rate cannot be submitted to the Commissioner of Revenue for approval until the question has been voted upon, or the deadline for holding an election has passed, whichever comes first.

Warrant Articles and Votes

Town meeting may make any appropriation vote contingent upon approval of a Proposition 2½ ballot question whether or not the warrant article under which that vote is being taken includes "contingency" language. Moreover, inclusion of contingency language in an article does not preclude town meeting from voting an appropriation without the contingency.

This is because of the broad scope of action afforded a town under a town meeting warrant article. In a budget or appropriation article, this broad scope of permissible action enables a town to fund an appropriation by any lawful method, whether specified in the article or not. Since raising the funds for an appropriation from a Proposition 2½ ballot question is a funding method, town meeting is free to use that particular method under any appropriation article.

Any language indicating that the appropriation is being made subject to the approval of a Proposition 2½ ballot question is sufficient to bring it within the provisions of General Laws Chapter 59, §21C(m) . For example, "subject to approval of a ballot question under General Laws Chapter 59, §21C. " or "contingent upon passage of a Proposition 2½ ballot question" would both clearly express town meeting's intent to condition the spending authority on subsequent voter action.

Effect of Contingency

A contingent appropriation vote simply conditions the effectiveness of the appropriation on the approval of a ballot question within a certain time period. It does not place a question on the ballot. The power to place Proposition 2½ override or exclusion questions on the ballot rests solely with the select board in the case of towns. They may choose not to place a question on the ballot for any or all contingent appropriations voted by town meeting. They can also decide to place a question on the ballot for an amount less than the contingent appropriation. In that case, approval of the question would make the appropriation effective only to the extent of the amount stated in the question.

Election Approach

A separate ballot question is not required for each contingent appropriation. The select board may include several appropriations within one question. Alternatively, they can use the so-called "menu" or "pyramid" approaches if the appropriations are for operating or other non-capital purposes.

The only limitation is that the purpose stated in a ballot question must be described in substantially the same manner as the purpose of the contingent appropriation vote the question is intended to fund. The question does not have to track the appropriation vote word for word, but it should describe the purpose in a similar manner. In the case of operating appropriations, this limitation may mean that the select board will not have as much flexibility as they would otherwise have in describing the specific positions, programs or services the question is intended to fund.

Question Approval

statutory deadline, determines whether that particular appropriation is effective. However, the validity of a ballot question is not dependent on the effectiveness of any particular appropriation made for the same purpose.

In other words, an override or exclusion approved by the voters always grants additional taxing authority to a community. That authority is exercised by including appropriations in the budget for the purpose stated in the question. It is fully exercised any time all appropriations for the stated purposes, whether or not made subject to a ballot question, equal or exceed the amount in the question. Subsequent changes, including reductions, in those appropriations will not affect the amount of the override or exclusion unless the amended appropriations are below the amount of the question.

Annual Budget

In most towns, the annual operating budget is presented under an omnibus budget article. Typically, the finance committee's recommendations for each line item and purpose are moved as the main motion under the article. If the finance committee proposes any contingent operating appropriations, the report should show the recommended amount for each line item and in a separate column, the additional amount recommended for that purpose contingent upon approval of a ballot question. The amounts shown in both columns can then be amended by town meeting. This is a practical format that lets town meeting members consider and discuss the effect of the proposals (both "non-override" and "override") on a particular department's operations for the year. More importantly, it clearly identifies the appropriations that are subject to any contingencies, which avoids disputes about a department's spending authority if the ballot question is defeated.

Some towns vote the entire operating budget contingent upon approval of a ballot question for a portion of that budget. Typically, that portion is the total amount by which the adopted budget exceeds the recommendations of the finance committee. The vote does not, however, include any allocation of the contingent amount to specific line items or purposes. This approach is not recommended because the entire budget is probably not effective if the question is defeated. Arguably, town meeting intended only to make the amount any line item exceeded the finance committee's recommendation subject to the contingency. However, there are often discrepancies between the total contingent amount and the amount of increases in the individual line items. Such discrepancies make it impossible for the town clerk to certify the appropriations available for each department's use if the ballot question fails. If this approach is planned, the election should be scheduled so that a town meeting can be held before July 1 to adopt a budget in the event the ballot question fails.

Capital Expenditures

Special purpose appropriations for capital expenditures, such as construction of new schools or acquisition of conservation land, are often made contingent on passage of a Proposition 2½ ballot question. Capital projects are typically funded by borrowing, which means the debt authorization could be contingent on passage of a debt exclusion. Projects funded from the levy or available funds could be subject to a capital expenditure exclusion. However, contingent appropriations for projects for which the town cannot legally borrow, such as painting town hall or filling potholes, can only be funded with an override. (General Laws Chapter 59 21C(i½))

Regional School Assessments

The regional school budget procedure is set forth in General Laws Chapter 71, 16B M.G.L. (See regulations issued by the Department of Elementary and Secondary Education, 603 Code of Massachusetts Regulations 41.05.) After the regional school committee adopts the annual budget, each member community is notified of its assessed share of the budget and must act to approve or disapprove it. A member may approve the budget by a vote expressly doing so, or by the more usual practice of simply appropriating its entire assessment ("a vote or votes by a local appropriating authority to appropriate the municipality's apportioned share of the regional school budget shall constitute approval of the annual regional school district budget.") An appropriation of less than the full assessment results in disapproval or rejection of the budget. Once the required number of members approves the budget (both communities in a two-member district and two-thirds of the communities in a three or more member district), all members become legally obligated to fund their assessments whether or not they approved the budget. If the original budget is not approved, an amended budget must be adopted by the regional school committee and submitted to the members for their consideration in much the same manner as the original budget. In either case, members can only approve or disapprove the budget before them. They cannot approve or disapprove any particular portion of it.

If a town uses contingent appropriations during this process, there are two approaches it may take. The most practical is to appropriate a portion of the assessment for the budget being considered (original or amended) without any contingency and then appropriate the balance with one. In that case, the portion with the contingency will become an effective appropriation if a levy limit override question passes within the statutory time period. The town will then have fully funded its assessment and approved the budget. If the override fails, the town will have disapproved the budget. Because the amount appropriated without the contingency is still a valid appropriation, the town will have set aside some funds to pay for its regional school assessment. Then, if the budget under consideration is disapproved and the requested funding level under an amended budget is within the amount already appropriated, the town will not have to call a special town meeting or take any other action in order to approve that budget.

Alternatively, the town can make the entire appropriation for the assessment contingent on approval of an override for all or a portion of that assessment. Approval of the override makes the entire appropriation effective and results in approval of the budget. The disadvantage of this approach is that the town has no appropriation for regional school purposes if the override is defeated so it will have to hold a special town meeting to appropriate the required funds before it can set its tax rate.

A town may make an appropriation for its assessed share of capital expenditures not funded by borrowing contingent on passage of a ballot question, whether the assessment is for a part of the annual budget or a separate, supplemental capital budget. A capital expenditure exclusion may be used to cover the portion of a particular year's assessment that is attributable to that spending. (General Laws Chapter 59, §21C(i½) (An override may also be used. (General Laws Chapter 59, §21C(g) M.G.L.)

A regional school committee may treat a contingent appropriation for all or part of the town's assessed share of a certified budget as a rejection of the budget. It does not have to wait for the election on the question.

Regional School Debt

Proposition 2½ expressly provides that a member of a regional governmental unit may exclude its assessed share of debt service on district borrowings. General Laws Chapter 59, §21C(k). Member towns often wish, therefore, to approve a regional school debt issue contingent upon passage of a debt exclusion. This poses a difficult problem because no appropriation is being made and, under General Laws Chapter 59, §21C(m)., a town is permitted only to make an appropriation contingent upon passage of a ballot question. More importantly, a regional school district may incur debt unless one of its members disapproves the issue within 60 days of the date the regional school committee authorizes the debt. General Laws Chapter 71, §16(d). Thus, town meeting does not actually have to approve the proposed issue. The only town meeting action that has any legal effect is a vote expressing disapproval of the debt. A contingent town meeting vote to approve the debt, coupled with an unsuccessful debt exclusion, may not constitute such a disapproval under the statute. As a practical matter, most regional school committees treat such actions as disapproval. In the absence of assurances that will be the case, however, the town should probably schedule the election first, and in sufficient time to give town meeting an opportunity to expressly disapprove the debt issue within the 60-day period should the ballot question fail.

Budgeting Excluded Debt

An approved debt exclusion covers the annual debt service on debt issued for the project or projects identified in the question. Under Department of Revenue (DOR) guidelines, however, the exclusion is limited to debt service on the amount of borrowing authorized or contemplated at the time of election. Debt service on any additional borrowing that may be authorized because of an increase in project cost is not automatically covered. The guidelines require the additional debt service to be budgeted within the levy limit unless it is a fairly small increase related to inflation or minor project changes or a supplemental debt exclusion is approved by the voters. (See DLS Informational Guideline Release No. 02-101, Proposition 2½ Debt Exclusions March 2002.)

The amount excluded each fiscal year over the life of the borrowing is also limited to the total principal and interest due that year net of any reimbursement received from the state or federal government for the project. Local revenues, such as user charges or betterments being used to fund the debt service, may be netted as well at the community's option, but if they are not, and the debt service is funded from a special revenue or enterprise fund, the tax subsidy must be budgeted to that fund. Under certain conditions, the DOR will approve adjustments in the annual exclusion schedule in order to moderate the impact on taxpayers.

The calculation of a debt exclusion must be adjusted for any premiums received upon the sale of the bond or notes for the project, minus the cost of issuance, in order to reflect the true interest costs incurred to finance the project. Use of the premiums to pay project costs and reduction of the amount to be borrowed by the same amount will so adjust the amount of the exclusion. Premiums received on bonds or notes sold on or after November 7, 2016 that are not so applied must be reserved for appropriation for capital purposes. In those cases, there will be no offsetting financing source for the adjustment in the debt exclusion. (General Laws Chapter 44, §20). See Ask DLS in DLS City & Town, November 3, 2016. See, also, DLS Informational Guideline Release No. 17-22, Premiums and Surplus Proceeds for Proposition 2½ Excluded Debt, August 2017.

The Division of Local Services (DLS) in the Department of Revenue has produced a primer on Proposition 2½: Levy Limits: A Primer on Proposition 2½ and a booklet about the election procedure: Proposition 2½ Ballot Questions: Requirements and Procedures.

This chapter was prepared by Kathleen Colleary, Esq. and updated by John Gannon, Esq. and represents the opinions of its authors and not necessarily those of the Department of Revenue.

Also see the following Sample Contingent Appropriation Motions for examples of presenting contingent appropriations for operating budgets, regional school assessments and capital projects.

SAMPLE CONTINGENT APPROPRIATION MOTIONS

APPROACHES UNDER OMNIBUS BUDGET ARTICLES

METHOD 1: SINGLE MOTION FOR CONTINGENT AND NON-CONTINGENT AMOUNTS

ARTICLE _: TO ACT ON THE REPORT OF THE FINANCE COMMITTEE ON THE FISCAL YEAR _ BUDGET AND TO RAISE AND APPROPRIATE OR TRANSFER FROM AVAILABLE FUNDS MONEY FOR THE OPERATION OF THE TOWN'S DEPARTMENTS AND THE PAYMENT OF DEBT SERVICE AND ALL OTHER NECESSARY AND PROPER EXPENSES FOR THE YEAR, OR TAKE ANY OTHER ACTION RELATIVE THERETO.

MOTION: I move that the town vote to raise and appropriate or transfer from available funds the amounts recommended by the Finance Committee for departmental operating purposes, debt service and other town expenses in fiscal year _, with each item to be considered a separate appropriation and the amounts shown in the column captioned "Contingent Appropriations" to be appropriated contingent upon passage of a Proposition 21/2 ballot question under General Laws Chapter 59, §21C.

PROPOSED FISCAL YEAR _ BUDGET

THE FINANCE COMMITTEE RECOMMENDS THAT THE AMOUNTS SHOWN IN THE COLUMN CAPTIONED "NON-CONTINGENT APPROPRIATIONS" BE APPROPRIATED FROM THE TAX LEVY, UNLESS OTHERWISE SPECIFIED, FOR FY _ DEPARTMENTAL OPERATING PURPOSES, DEBT SERVICE AND OTHER TOWN EXPENSES, AND THAT THE AMOUNTS SHOWN IN THE COLUMN CAPTIONED "CONTINGENT APPROPRIATIONS" BE APPROPRIATED FROM THE TAX LEVY CONTINGENT UPON THE PASSAGE OF A PROPOSITION 21/2 BALLOT QUESTION UNDER GENERAL LAWS CHAPTER 59, §21C.

PURPOSE	NON-CONTINGENT APPROPRIATIONS	CONTINGENT APPROPRIATIONS
Selectboard's Office		
Salaries	$ 45,000	6,000
Expenses	18,000	4,000
School Department	2,800,000	300,000
Town Planner		
Salary	0	35,000
Expenses	0	12,000
Cemetery Commission		
Salaries	8,000	
Expenses	10,000	
(Includes $8,000 transfer from Sale of Lots Fund)		
TOTAL	**$8,000,000**	**$890,000**

METHOD 2: SEPARATE MOTIONS FOR CONTINGENT AND NON-CONTINGENT AMOUNTS

MOTION: I move that the town vote to raise and appropriate or transfer from available funds the amounts recommended by the Finance Committee for departmental operating purposes, debt service and other town expenses in fiscal year _, with each item to be considered a separate appropriation.

PROPOSED FISCAL YEAR _ BUDGET

THE FINANCE COMMITTEE RECOMMENDS THAT THE FOLLOWING AMOUNTS BE APPROPRIATED FROM THE TAX LEVY, UNLESS OTHERWISE SPECIFIED, FOR FISCAL YEAR _ DEPARTMENTAL OPERATING PURPOSES, DEBT SERVICE AND OTHER TOWN EXPENSES:

PURPOSE	RECOMMENDED
Selectboard's Office	
Salaries	$45,000
Expenses	$18,000
School Department	$2,800,000
Town Planner	
Salary	0
Expenses	0
Cemetery Commission	
Salaries	$8,000
Expenses	$10,000
(Includes $8,000 transfer from Sale of Lots Fund)	
TOTAL	**$8,000,000**

MOTION: I move that the town vote to raise and appropriate any additional amounts recommended by the Finance Committee for the departmental operating purposes and other town expenses in fiscal year _, contingent upon passage of a Proposition 21/2 ballot question under General Laws Chapter 59, §21 C.

PROPOSED FISCAL YEAR_CONTINGENT BUDGET

THE FINANCE COMMITTEE RECOMMENDS THAT THE FOLLOWING AMOUNTS BE APPROPRIATED FROM THE TAX LEVY FOR FISCAL YEAR __ DEPARTMENTAL OPERATING PURPOSES AND OTHER TOWN EXPENSES CONTINGENT UPON PASSAGE OF A PROPOSITION 21/2 BALLOT QUESTION UNDER GENERAL LAWS CHAPTER 59 §21C.

PURPOSE	RECOMMENDED
Selectboard's Office	
Salaries	$6,000
Expenses	$4,000
School Department	$300,000
Town Planner	
Salary	$35,000
Expenses	$12,000
TOTAL CONTINGENT APPROPRIATIONS	**$890,000**

BALLOT QUESTIONS

Under either approach, the town has the choice whether to bundle all the contingent appropriations for operating expenditures or the fiscal year into a single override question for the $890,000 in this example, or to put separate questions on the ballot for different departments or groups of departments: for instance, one question for $300,000 for school department operating expenses and another question for $590,000 for fiscal operating expenses of all other town departments. The choice of how to structure the ballot questions is within the discretion of the selectboard. If the selectboard decides to include more than one contingent appropriation in a question, the purpose of each appropriation the question is intended to fund would have to be stated in the question.

SAMPLE CONTINGENT APPROPRIATION MOTIONS

UNDER OTHER APPROPRIATION ARTICLES
REGIONAL SCHOOL BUDGET ARTICLE

(Levy Limit Override)

ARTICLE_: TO SEE IF THE TOWN WILL APPROVE THE ________REGIONAL SCHOOL DISTRICT BUDGET FOR FISCAL YEAR _ AND RAISE AND APPROPRIATE OR TRANSFER FROM AVAILABLE FUNDS $(FULL ASSESSMENT) TO PAY ITS ASSESSED SHARE OF THAT BUDGET, OR TO TAKE ANY OTHER ACTION RELATIVE THERETO.

MOTION: I move that the town raise and appropriate $(non-contingent portion) to pay its assessed share of the__________ Regional School District Budget for fiscal year _ and that it raise and appropriate the additional $(contingent portion) required to fully fund the assessment and thereby approve the district's budget for the year, provided that this additional appropriation be contingent on the approval of a levy limit override question under General Laws Chapter 59, §21 C(g).

REGIONAL SCHOOL BUDGET ARTICLE

(Capital Outlay Expenditure Exclusion)

ARTICLE__: TO SEE IF THE TOWN WILL APPROVE THE ________ REGIONAL SCHOOL DISTRICT BUDGET FOR FISCAL YEAR _____ AND RAISE AND APPROPRIATE OR TRANSFER FROM AVAILABLE FUNDS $(FULL ASSESSMENT) TO PAY ITS ASSESSED SHARE OF THAT BUDGET, OR TO TAKE ANY OTHER ACTION RELATIVE THERETO.

MOTION: I move that the town raise and appropriate $(non-contingent portion) to pay its assessed share of the ____ Regional School District Budget for fiscal year____ and that it raise and appropriate the additional $(contingent portion) attributable to its share of the budget for capital spending not funded by debt and thereby fully fund the assessment and thereby approve the district's budget for the year, provided that this additional appropriation be contingent on the approval of a Proposition 2 1/2 capital outlay expenditure exclusion under General Laws Chapter 59, §21C (i1/2).

SEPARATE DEPARTMENTAL "CONTINGENT BUDGET" ARTICLE

ARTICLE_: TO SEE IF THE TOWN WILL RAISE AND APPROPRIATE OR TRANSFER FROM AVAILABLE FUNDS A SUM TO SUPPLEMENT THE FIRE DEPARTMENT'S OPERATING BUDGET FOR FISCAL YEAR _ CONTINGENT UPON THE PASSAGE OF A PROPOSITION 2 1/2 LEVY LIMIT OVERRIDE BALLOT, OR TAKE ANY OTHER ACTION RELATIVE THERETO.

MOTION: I move that the town raise and appropriate an additional $______for the Fire Department's fiscal year _ operating budget to be allocated as follows: $___________for salaries and $___________for expenses, provided that such additional appropriations be contingent on the passage of a Proposition 2 1/2 levy limit override question.

BORROWING ARTICLE

ARTICLE __: TO SEE IF THE TOWN WILL APPROPRIATE A SUM OF MONEY BY BORROWING TO DESIGN AND CONSTRUCT A SENIOR CENTER AND TO AUTHORIZE THE TREASURER, WITH THE APPROVAL OF THE SELECTBOARD, TO ISSUE ANY BONDS OR NOTES THAT MAY BE NECESSARY FOR THAT PURPOSE, OR TAKE ANY OTHER ACTION RELATIVE THERETO.

MOTION: I move that the town appropriate and borrow $10,000,000 for the design and construction of a Senior Center and authorize the treasurer with the approval of the selectboard, to issue any bonds or notes that may be necessary for that purpose, as authorized by General Laws Chapter 44, § 7(1), or any other general or special law, for a period not to exceed the maximum period authorized by law, and to apply any premium received upon the sale of the bonds or notes, less any premium applied to the payment of issuance costs of the bonds or notes, to the payment of project costs approved by this vote, thereby reducing the amount authorized to be borrowed to pay those costs by a like amount; provided, however, that this appropriation and debt authorization be contingent upon passage of a Proposition 2½ debt exclusion question under General Laws Chapter 59, § 21C(k).

Chapter 7: Revenue and Expenditure Forecasting

Introduction

The Government Finance Officers Association (GFOA) recommends that governments at all levels forecast significant revenues and expenditures. Revenue and expenditure forecasting is a critical element of the budget preparation process. A forecast will utilize information based on past, present, and future fiscal conditions to provide a community some insight into what their financial situation may look like in upcoming years. For many years, municipalities have recognized the importance of long-range financial planning. This is evidenced by the fact that many communities now have adopted a formal bylaw or charter requirement requiring a long-range capital improvement program to be prepared annually (Chapter 41 s 106B M.G.L.). The forecast must be clear, identify assumptions, and be developed early as part of the budget process. The forecast acts as a bridge between a municipality's capital improvement program and its annual operating budget, bringing fiscal policy and economic variables together to establish financial direction for a municipality and all stakeholders . It also allows decision-makers to understand the long-term ramifications of short-term decisions. Financial officers should construct sophisticated long-range revenue and expenditure forecasts with the most current, pertinent, and projected information available at the time. As capital planning, debt management, and revenue and expenditure forecasting are the essential components in developing a strong municipal fiscal position. A forecast can help identify potential revenue and expenditure concerns that may need to be addressed and can be crucial to avoiding program reductions which could result without the use of such fiscal planning tools.

The revenue constraints of Proposition 2½ have changed the municipal budgetary process and heightened the importance of long-range budget planning. It is the primary function of a five-year revenue and expenditure forecast to summarize a community's projected budgetary position over a period of time, based upon the most accurate and reliable information available at the time of preparation. The five-year forecast must also establish the community's initial goals and direction, working to ensure a balanced fiscal and programmatic service mix.

Long-range forecasting is the essential first step in the annual budget process, determining whether a community will have to reduce, level-fund, or be able to expand services. It is critical that the report be used as a starting point in a long-term planning process. Ultimately, as the law requires, towns and cities will authorize a budget for the next fiscal year that has its revenues and expenditures in balance. Suppose a long-range forecast identifies any anticipated budget gaps. In that case, the forecast sets the parameters of policy decisions that may need to be made in order to produce future balanced municipal budgets.

Elements of a Successful Forecast

While cooperation between various stakeholders, including local financial officials, select board, school officials, and finance committees are an integral part of the budget process and provide pertinent data to complete a forecast. It is recommended that one knowledgeable finance official develop and lead the process. In addition, other elements of a successful forecast should be that they:

- do not forecast beyond five years as the accuracy of a forecast degrades the further out that fiscal years are projected;
- be based on assumptions that are easily understood, clearly outlined, and adjustable as updated information becomes available;

- presented in a summarized manner that ensures that non-financial personnel can comprehend the information;
- made available to policymakers in the community and its release should dovetail with the early stages of a community's budget process.

It's important to remember that assumptions upon which projections are made change with time. A forecast is not an exact prediction of the financial condition of a municipality. National or local downturns in the economy have an impact on local revenues. For example, in past years, changes to state-financed programs, such as general education assistance, special education assistance, and school building assistance, have had significant effects on the financial condition of communities. Weak financial markets may dramatically change actuarial calculations of contributory retirement funding, as well as impact investment earnings and interest rate assumptions for borrowing. The energy futures market may fluctuate dramatically, impacting all utility budgets. The important factor to consider is that changes in assumptions utilized in a forecast can change rapidly and unpredictably. Thus, it makes it necessary to periodically update the forecast assumptions to keep the forecast useful.

Forecast Construction

The typical revenue and expenditure forecast consists of a community's significant revenues and expenditures. A forecast does not need to be as detailed as the annual budget and should generally summarize revenues and expenditures. The revenues are grouped and added to provide a total estimated annual revenue forecast for that year. Expenditure cost centers are grouped, below the revenue total, and are added to provide a total estimated annual expenditure forecast. A simple calculation, subtracting estimated annual expenditures from estimated annual revenues, provides a community with a projected annual surplus or deficit (Gap Analysis). That surplus or deficit then shapes a municipality's policy decisions.

A forecast would typically include at least the most recent past fiscal year, the current year, and several upcoming (forecasted) fiscal years. Best practices suggest that you extend this analysis over the horizon for five years or less for an optimal forecast. As forecasting techniques are based upon historic trend analysis, short-term analysis may not provide communities with an adequate estimate of the future fiscal condition of the community. Conversely, an extremely long-term forecast loses accuracy over time.

The goal of any analysis is to examine the "big picture" and break it down into smaller, more manageable, and (most importantly)understandable parts. Thus, for every revenue or expenditure center included on the summary spreadsheet, a sub-schedule should be developed, including all the factors that lead to the specific revenue/expenditure center's forecast. This backup information can allow for further fine-tuning of assumptions that are being made to develop the forecast.

An area where a sub-schedule is helpful is local receipts, as the municipality has gathered a tremendous amount of data on them based upon previous year receipts. For example, included with each year's recapitulation sheet, submitted to the Department of Revenue, is a list of actual local revenue collections from the previous fiscal year and projections for the next fiscal year (see Appendix M-3).

A review of several prior years' data will allow local financial planners to develop a historic trend analysis that can be used to create a projection of future revenue based upon actual data rather than educated guesses. This is why periodic reviews of revenues are such a critical part of the municipal finance process. A better understanding of these revenues provides a solid framework to build a forecast and budget ultimately. Similar sub-schedules can be developed for each of the significant variables of the summary spreadsheet. An example of a sub-schedule for local receipts is shown at the end of the chapter.

A key first step in the forecasting of locally generated revenues ("local receipts") is a thorough year-end analysis of the recently completed fiscal year. A strong understanding of how each local receipt performed is critical. This involves working with those departments responsible for managing programs with fees, fines or penalties and ensuring that your trend analysis accounts for any anomalies or upcoming changes that were not reflected in the previous data. An unquestionable understanding of a community's revenue allows for the development of a very credible revenue base.

As municipal financial planners begin to divide their community's overall revenue and expenditure components into smaller variables, a better understanding develops concerning what will affect a specific variable. Many variables are tied directly to inflation. Some contractually agreed-upon expenditures might have specific annual inflation costs. Others may lock in a cost for a period of years. Personnel costs are often driven by collective bargaining and cost of living adjustments.

Potential costs for group health insurance can be forecasted by considering such things as the number of employees in each plan, employees projected to be added, the projected rate increase for health care costs, and the employer/employee split of costs. Some variables, however, are not tied solely to inflation. Energy costs, for example, are viewed in terms of consumption as well as pure inflation. A sensible method for projecting these costs is analyzing the past three years of usage and costs, making any adjustments for contractual changes or market conditions, and conducting a trend analysis with that data to utilize within the forecast. Other variables that are too small to review, or are not controlled by events within the community, can be forecasted by giving them a generic inflation factor tied to the current cost of living index. The effort of constantly expanding the variables that go into the forecast will ultimately lead to more accurate, and therefore more credible, forecasts. This, in turn, provides the community with a sophisticated planning tool.

Similar to the year-end revenue analysis, communities should comprehensively review all prior year expenditure patterns. Key trends to review include overtime, changes in energy consumption, health insurance enrollment, and 'surplus funds' from vacancies in personnel.

Computer technology plays an ever-expanding role in the financial planning process. For example, revenue and expenditure forecasting require only the ability to use simple spreadsheet software and word processing software to produce a forecasting report explaining the assumptions. Within the spreadsheet software, subtotals of the sub-schedules can be linked to a summary page. Thus, all adjustments that take place on the detailed sub-schedules will immediately ripple out to the summary page, allowing the user, and their readers, instant understanding of the impact of any proposed adjustment. The Massachusetts Department of Revenue, Division of Local Services has an excellent publication that will help finance committees navigate several recommended software packages: Revenue and Expenditure Forecasting Software: Users Manual. In addition, other more sophisticated platforms to further enhance and simplify forecasting capabilities and reporting are emerging and merit consideration. In summary, a good forecast can be developed simply via an excel sheet or via a software package. It's up to the municipality and local officials to determine what is best for their community.

"What If?"

The primary purpose of the revenue and expenditure analysis is to determine the annual gap between revenues and expenditures. This use of the forecast is often referred to as gap analysis. Another, more sophisticated management tool that can be derived from forecasts is something called an impact analysis. Beginning with the fundamental gap analysis, fiscal planners isolate a specific variable and play "what if" scenarios with it. A community may want to understand the long-term effects of agreeing to a collectively bargained labor contract, for example. By placing optional inflation factors on the personnel variables affected by the proposed contract, fiscal planners can quickly see the estimated fiscal effect the contract would have on the town budget. Similarly, a community could see the impact of various revenue enhancement proposals.

Policy Budgeting

A growing trend in local budgeting is policy budgeting. Policy budgeting guides how revenues are to be allocated based upon the fiscal policies of a community. For example, fiscal policies can dictate how much revenue will be set aside for reserves, the capital improvement plan, or how Free Cash will be utilized. It is strongly recommended that communities work to develop, adopt, and implement prudent fiscal policies. This is an important step in establishing priorities for the community. These policies then guide the forecasting process. For example, suppose a community's policy states that Free Cash should only be used for one-time uses. In that case, the financial forecast should not assume using Free Cash to support ongoing departmental expenses. Ideally, a community forecast is framed by the fiscal policies, and the impact of those policies are then played out in the forecast. Decision-makers can then see how any proposed changes to the fiscal policies impact the bottom line.

Constraints

Local forecasters attempt to develop analyses that will provide an accurate estimate of a community's fiscal condition in the next year and several years thereafter. To provide a useful document, fiscal planners must begin somewhere. Thus, it makes sense that as an underlying policy of the forecast, municipal financial planners assume that every law that currently exists, every service currently provided, and any revenue that is currently available will also exist for purposes of the forecast. Assuming that all of the aforementioned items remain the same allows forecasters to examine the effects of economic variables while excluding political variables. As an example, a local forecaster cannot assume that an override will be successful. It is important to estimate what the revenue/expenditure gap will be without an override. Then an impact analysis can be used to determine what the impact of various override amounts would have on the future gap.

Another pitfall common to forecasting is a tendency to break down the expenditure side of the equation by departmental divisions. This strategy requires an inflation factor for each department rather than for what each department purchases. If fiscal planners choose a reasonably sophisticated analysis, it would require a break out of all line items of each department, which would be a labor-intensive and unproductive way to proceed. The preferred format abolishes departmental lines for purposes of the forecast and focuses on the purchases of the entire municipality. Fiscal planners can break down expenditures by municipal and education. Then a sub-schedule of each would be developed to illustrate what is purchased and its cost. When determining an inflation factor based upon specific purchases such as supplies or services rather than departmental breakdowns, different and more accurate inflation factors can be applied to specific cost centers. This will provide for a more accurate forecast than that provided by a generic inflation factor. Another item to be factored is personnel costs, especially in or around contract years.

Accuracy

Reliable forecasting requires the seemingly contradictory existence of accuracy in an imprecise environment. The highest degree of accuracy is incredibly vital , when local governments across the country are experiencing decreasing fund balances, increasing fixed costs, and reduced revenue resources.

It is difficult to measure the utility of a new revenue and expenditure forecast without reviewing the accuracy of the forecasts and actual budgets from prior years. Gaining and maintaining the accuracy, and credibility, of revenue and expenditure analyses is vital to their success as legitimate financial planning tools. When done correctly, revenue and expenditure forecasts can be highly accurate. With more municipalities understanding the importance of understanding and refining their forecasts, several have developed excellent track records for estimating their future budgets. Thus, it is vital that a forecast be revisited to review opportunities to make it more accurate in the future.

Adopting a conservative approach to forecasting both revenues (avoiding too "rosy" of an estimate for growth) and expenditures is a best practice approach, as starting with too favorable of a bottom line could backfire and hurt the credibility of the forecast when the financial picture is not as favorable as initially forecasted.

Summary

In summary, effective revenue and expenditure forecasting is dynamic. It's not a static process. Variables may change due to a variety of circumstances, whether they be economic or policy-related. These adjustments need to be accounted for, and they can affect the forecast either positively or negatively. Below is an example of variables that could affect a forecast's overall estimates:

- decisions to utilize a community's reserve taxing capacity, or to use free cash as a source of revenue within the budget plan;
- the imposition of new or increased local revenues,

such as the short-term rental tax;

- decisions by the state or federal governments to allow cities and towns additional revenue-generating flexibility, to provide additional aid to local governments, or pass an unfunded mandate;
- the state's assumption of services and/or financial responsibilities which are presently a cost to local communities, or the return to municipalities of certain responsibilities or services that had previously been under state jurisdiction;
- changes in the condition of the local, state and national economies;
- changes in existing law and administrative rules of higher levels of governance, and
- changes in local policies with regard to concerning what constitutes an appropriate mix and level of municipal services as well as what constitutes an appropriate system of service financing;
- new union contract provisions that are agreed upon.

Best practices suggest that the forecast should be updated frequently. A suggestion would be to update the forecast every other month to reflect changes that may have taken place and update significant changes promptly to see what the impact of these decisions is long-term. As the annual budget process proceeds, policy decisions based on revenue and expenditure forecasts can positively impact any projected revenue gap. Ultimately, through a series of revenue enhancement and expenditure control policies, any projected gap can be eliminated, and the budget will be balanced. These budget balancing decisions will have a ripple effect upon the projected gaps of future years. The fiscal policies adopted in the first year of a forecast can avoid or reduce preliminary deficits in future years. Thus, it is very critical to evaluate and understand the long-term impacts of decisions. A revenue and expenditure forecast is a critical part of the decision making policy and one of the most important financial tools available to a municipality.

This chapter was prepared and updated by Stephen E. Cirillo, Sean Cronin, and Allan Tosti (for the 2017 edition) and updated by Justin Casanova-Davis for the 2021 edition.

Sample Town
Revenue and Expenditure Projection

	VOTED FISCAL 2022	FISCAL 2023	FISCAL 2024	FISCAL 2025	FISCAL 2026	FISCAL 2027	(DECREASE)
REVENUES							
ENTERPRISE FUNDS	12,834,103	13,475,808	14,149,599	14,857,078	15,599,932	16,379,929	105.00%
STATE AID (minus Offsets)	18,643,849	19,203,164	19,779,259	20,372,637	20,983,816	21,613,331	103.00%
OFFSET AID LIBRARY & SCHOOL	550,703	578,238	607,150	637,508	669,383	702,852	105.00%
MOTOR VEHICLE EXCISE	3,643,546	3,935,030	4,249,832	4,589,819	4,957,004	5,353,564	108.00%
OTHER LOCAL RECEIPTS	3,256,211	3,516,708	3,798,045	4,101,888	4,430,039	4,784,442	108.00%
FREE CASH	2,600,074	2,600,074	2,600,074	2,600,074	2,600,074	2,600,074	100.00%
OTHER AVAILABLE	1,482,143	1,556,250	1,634,063	1,715,766	1,801,554	1,891,632	105.00%
PROPERTY TAX - W/O EXEMPTED DEBT	51,688,360	53,239,011	54,836,181	56,481,267	58,175,705	59,920,976	103.00%
PROPERTY TAX - EXEMPTED DEBT	2,742,539	2,666,307	2,593,156	2,517,198	2,451,478	2,374,854	
TOTAL NON-ENTERPRISE FUND REVENUES	**84,607,425**	**87,294,782**	**90,097,760**	**93,016,156**	**96,069,053**	**99,241,725**	
TOTAL REVENUES	**97,441,528**	**100,770,590**	**104,247,358**	**107,873,234**	**111,668,986**	**115,621,654**	
APPROPRIATIONS							
ENTERPRISE FUNDS	13,077,763	13,731,651	14,418,234	15,139,145	15,896,103	16,690,908	105.00%
SCHOOL BUDGET	30,828,677	32,370,111	33,988,616	35,688,047	37,472,450	39,346,072	105.00%
OTHER TOWN BUDGETS	27,971,459	29,090,317	30,253,930	31,464,087	32,722,651	34,031,557	104.00%
CAPITAL & NON EXEMPT DEBT SERVICE	4,090,801	4,193,071	4,297,898	4,405,345	4,515,479	4,628,366	102.50%
EXEMPTED DEBT SERVICE	2,742,539	2,666,307	2,593,156	2,517,198	2,451,478	2,374,854	
PENSIONS	5,038,086	5,164,038	5,293,139	5,425,468	5,561,104	5,700,132	102.50%
INSURANCE	8,937,222	9,830,944	10,814,039	11,895,442	13,084,987	14,393,485	110.00%
STATE ASSESSMENTS	2,904,059	2,904,059	2,904,059	2,904,059	2,904,059	2,904,059	100.00%
OFFSET AID LIBRARY & SCHOOL	550,703	578,238	607,150	637,508	669,383	702,852	105.00%
OVERLAY RESERVE	600,000	600,000	900,000	600,000	600,000	900,000	
OTHER	700,219	735,230	771,991	810,591	851,121	893,677	105.00%
TOTAL NON-ENTERPRISE APPROPRIATIONS	**84,363,765**	**88,132,316**	**92,423,978**	**96,347,745**	**100,832,711**	**105,875,054**	
TOTAL APPROPRIATIONS	**97,441,528**	**101,863,967**	**106,842,212**	**111,486,891**	**116,728,813**	**122,565,961**	
SURPLUS/DEFICIT	**0**	**(1,093,377)**	**(2,594,854)**	**(3,613,656)**	**(5,059,828)**	**(6,944,307)**	

Revenue Budget Fiscal Year 2023 Summary Reference Sheet

Property Taxes:

1. Fiscal Year 2022 Base
   This is the levy limit, not your actual tax levy which may be lower.
2. Plus 2.5%
   This is your automatic and allowable 2.5% increase.
3. Plus FY2023 Estimated New Growth
   This is your Fiscal Year 2023 estimated new growth from your assessor.
4. Plus FY2023 Override
   This is your Fiscal Year 2023 Override, if you have suc- cessfully voted a new override to begin this year.
5. Plus Debt Exclusion
   This is your new or existing debt exclusion. Check with the Treasurer to review the debt schedule to obtain actual debt payments for the appropriate fiscal years. (Remem- ber, only qualifying debt should be included here and you must subtract certain state or federal grants such as School Building Assistance). Ensure that the debt included in this line has been properly voted. This can include interest on short term debt.
6. Plus Capital Exclusion
   This includes only successfully voted capital exclusions (this is essentially a one year override).

Other Recurring Revenue:

7. State Aid - Cherry Sheet
   This is your State Aid Revenue component. Use the green sheet only. You will need to use an estimate until the actu- al Cherry Sheets are released.
8. Local Receipts (not allocated in numbers 9, 10 & 11)
   These are the fees that are generated at the local level. Mo- tor vehicle excise is usually the largest component. A team approach with your town accountant's input is suggested for this estimate.
9. Offset Receipts
   This is regulated by Chapter 44, S53E M.G.L. If your community has adopted this, insert your receipt estimate here.*
10. Enterprise Receipts
    This is regulated by Chapter 44, S53 F1 /2 M.G.L. If your community has adopted this, insert your receipt estimate here.*
11. Revolving Funds
    This is regulated by Chapter 44, S53 E 1/2. M.G.L. If your community has adopted this, insert your receipt estimate here.*

    ** REMINDER: There will typically be a direct expense that off-sets these receipts.*

Other Available Funds:

12. Free Cash
    This is the amount of free cash certified by DOR annually that the town chooses to use for operating budgets. Your available free cash will also depend on whether you have appropriated any amounts from this current certification.
13. Stabilization Fund
    This is a reserve account that is available for any lawful purpose. Appropriations from this reserve require a 2/3 vote at town meeting.
14. Overlay Surplus
    This is the amount of overlay no longer required for potential abatements, exemptions, or pending Appellate Tax Board cases. This amount must be designated as surplus by the Board of Assessors.
15. Other
    Examples may be: unexpended funds from complete projects in old special articles

Charges Against Revenue:

16. These are the State charges (the pink sheets), you will have to estimate this if the cherry sheets have not been released.
17. Overlay
    This is the amount needed for property tax abatements or exemptions. The estimate is arrived at by the board of assessors.
18. Offsets- Cherry Sheet
    These are specific programs listed on the Cherry Sheets that are earmarked.
19. Amount Certified for Tax Title
    This is an amount to be raised for the purpose of starting the Tax Title process for delinquent taxpayers.
20. Debt & Interest not provided for

This is unanticipated borrowing from the current fiscal year that was not budgeted for.

21. Final Court Judgments
    Costs from rendered court judgements.
22. Overlay Deficits
    This occurs if the Board of Assessors grants more in abatements than what is available (overlay reserve), re- sulting in an overlay deficit. This may also occur for prior year abatements, if the Board of Assessors settles or loses a case before the appellate Tax Board.
23. Revenue Deficits
    This occurs if the actual receipts received are lower than the budgeted amounts, and this is not offset by unex- pended appropriations. Then the revenue deficit must be raised in the next year's tax rate.
24. Snow & Ice Deficit
    This occurs if the community incurred a deficit because of severe weather, which deficit must be raised in the next year's tax rate.
25. Offset Receipt Deficit
    This is if you have adopted Chapter 44, S53 M.G. L.(number 10 from above) and your actual receipts were below your estimates, then you should raise this in the next year's tax rate.
26. Other

Revenue Budget Worksheet

Fiscal Year 2023

(1) Fiscal Year 2022 base ____________
(2) Plus 2.5% ____________
(3) Plus FY 2023 New Growth ____________
(4) Plus FY 2023 Override ____________
(5) Plus Debt Exclusion ____________
(6) Plus Capital Exclusion ____________

Total Property Tax Revenue

OTHER RECURRING REVENUE:

(7) State Aid - Cherry Sheet ____________
(8) Local Receipts (not allocated below) ____________
(9) Offset Receipts ____________
(10) Enterprise Receipts ____________
(11) Revolving Funds ____________

Total Other Recurring Revenue

OTHER AVAILABLE FUNDS

(12) Free Cash ____________
(13) Stabilization Fund ____________
(14) Overlay Surplus ____________
(15) Other ____________

Total Other Available Funds ____________

TOTAL REVENUE

CHARGES AGAINST REVENUES

(16) State & County Charges - Cherry Sheet ____________
(17) Overlay ____________
(18) Offsets - Cherry Sheet ____________
(19) Amounts Certified for Tax Title ____________
(20) Debt & Interest not provided for ____________
(21) Final Court Judgments ____________
(22) Overlay deficits ____________
(23) Revenue Deficits ____________
(24) Snow & Ice Deficits ____________
(25) Offset Receipt Deficits ____________
(26) Other

TOTAL CHARGES AGAINST REVENUES

RECONCILIATION: TOTAL REVENUES TOTAL CHARGES AGAINST REVENUES

TOTAL AVAILABLE FOR LOCAL APPROPRIATIONS

This document is designed for estimating purposes only

Chapter 8: Cash Management and Banking Relations

Introduction

Cash management is a significant component of the overall financial management of a municipality. It is the process used to manage the funds available to a local governmental entity in order to ensure maximum cash availability and yield on the investment of idle cash resources consistent with safe investment policies.

While the role of the finance committee is generally a supportive one rather than one of direct oversight or responsibility, the more information a finance committee has about the handling of municipal cash, the better able it is to determine whether the process is going well.

A good cash management program benefits a jurisdiction by increasing non-tax revenues, improving the control and timely handling of cash, increasing contact with the financial community and sometimes lowering borrowing costs by good timing. All of this should be done, of course, while maintaining the safety of the municipality's funds, and adhering to state statutes.

Legal Limitations on and Requirements of Municipal Financial Officials

Municipal finance operations and practices are governed by Massachusetts General Laws (M.G.L). The Division of Local Services (DLS) of the state Department of Revenue (DOR) has statutory responsibilities to make sure that cities and towns abide by the state statutes. The DLS legal bureau makes legal information available on its website (www.mass.gov/dls). It also answers questions submitted via email at DSLAW@dor.state.ma.us. Publications helpful to financial officials on the local level are available at the DOR website, http://www.mass.gov/dor/local-officials

Chapter 44 § 53-55 M.G.L. spells out the requirements for a municipal treasurer to follow in investing public funds. There are specific limitations on these investments. These sections of the law may be found at https://malegislature.gov/Laws/GeneralLaws/PartI/TitleVII/Chapter44 .

The Massachusetts Inspector General's (OIG) office has issued a publication titled Banking Services Procurement Guide for Local Government Treasurers. It describes in detail the requirements under Massachusetts procurement law which local government treasurers must follow in obtaining banking services. The OIG issued procurement bulletin Volume 23 Issue 1 January 2017 offers abbreviated guidance along with additional contact information. (https://www.mass.gov/doc/procurement-bulletin-january-2017-vol-23-1/download).

The Massachusetts Collectors and Treasurers Association (MCTA) Treasurer's Manual is available at their website: https://www.masscta.com/sites/g/files/vyhlif3441/f/uploads/treasurers_manual.pdf .

Relevant chapters in this manual are Chapters 11 and 12. The entire manual can be downloaded free of charge. Also available from MCTA is a model investment policy, which local treasurers can adapt for their use.

Cash Management

The primary goals of a cash management system are:

- **Liquidity -** to maximize the amount of cash available to meet both the weekly/monthly cash requirements of the municipality and the amount of money available for investment (or alternatively, to reduce temporary borrowing to meet current disbursements); and

- **Safety and yield -** to earn the maximum available return on funds through legally permissible investments.

Other important goals that can be achieved through a good cash management program are:

- Develop or strengthen internal control in areas of cash receipts and cash disbursements;
- Improved collection policies/practices with respect to outstanding taxes and fees; and
- Establish clear lines of communication and authority between the treasurer and department heads relating to their cash needs.

The basic elements of a cash management program include:

- Cash flow analysis;
- Forecasting disbursements and receipts;
- Investment program; and
- Banking relations.

Cash Flow Analysis

At a minimum, cash flow data should be prepared on a monthly basis for the current year. Larger communities with significant budgets may wish to compile information on a daily, weekly or biweekly basis to get the most usable and meaningful information.

The cash flow is constructed from two main types of inflows and outflows of cash: recurring types, which can be anticipated regularly month after month, such as property taxes or payroll expenses; and extraordinary types, which result from non-recurring items or programs, such as federal grants or capital expenditures.

A cash manager should use past history of major collections and disbursements (the previous three to five years provides the best data) to identify recurring patterns, and then adjust these flows for predicted changes in the timing of the patterns and for the anticipated rise and fall of income and expense amounts.

The municipality's operating budget can provide those who are preparing the cash flow analysis with useful and necessary information. The percentage increase in payroll and other expenditures, changes in seasonal spending patterns and adjustments caused by the addition or deletion of programs can be detected in an analysis of the budget.

Forecasting Disbursements and Receipts

On the disbursement side, payroll accounts for approximately 70-80 percent of most local government budgets. Thus, personnel expenditures should be identified first.

Personnel expenditures are relatively constant and therefore can be reliably predicted. Payroll records or the upcoming budget are used to determine yearly personnel costs, then that amount is divided by the number of pay periods for the gross payroll. The gross, which includes federal and state income taxes (plus any employer share of Medicare taxes) and fringe benefits such as health insurance and retirement, should all be factored into the cash flow. The disbursement forecast should also include adjustments for seasonal or temporary workers and seasonal payments such as vacation advances in the summer months.

Once payroll disbursements have been forecasted, the cash manager should then forecast other cash payments. This might be accomplished by analyzing each departmental budget for non-payroll items and then examining the more expensive items first. Discussions with department heads should reveal patterns of past cash disbursements for these items, and the predicted pattern and amount of disbursement for the upcoming year. Care should be taken to ensure that these amounts coincide with the treasurer's sense of reasonable payments and past disbursement experience. Department officials may have incorrect impressions of their department's cash disbursements because they do not always monitor the timing and volume of cash outflows.

Receipts can be forecasted as easily as disbursements. Real Estate and Personal Property taxes have due dates set by statute. Motor Vehicle Excise and Utility bills have similar collection dates. Local Aid is distributed on a monthly basis. Seasonal increases in receipts such as beach fees or new home constructions or renovations should again be easily tracked with just a few years of historical data. A conservative approach should be recommended for the estimation of one time receipts such as the sale of Town-owned property.

Once forecast calculations are completed, the next step is to construct a monthly calendar specifying, by date, the amount of money needed, the purpose for specific funding with its recipient(s) against projected general receipts. This similar process needs to be accomplished well in advance to identify a shortfall. A Revenue Anticipation Note (RAN) may be issued through the State House Note program for a period of up to one year to address a negative cash flow situation. These RAN's are provided for under M.G.L c. 44 §4.

Computer spreadsheets should be developed in the Town Treasurer's office which can be used each year to forecast disbursements and revenues. The Massachusetts Collectors' and Treasurers' Association has held workshops where treasurers share various forms and spreadsheets which they have developed.

Investment Program

M.G.L. Ch. 44 §55B requires that all monies not required for current operations be invested. The available investments for these funds, except for trust, certain special purpose funds and retirement funds, are stipulated in M.G.L. Ch. 44 § 55. This section was updated under the Municipal Modernization Act of 2016. In summary, a treasurer shall not have on deposit any sum of money that would exceed 60% of the capital and surplus of such bank or trust unless additional security has been pledged. These investments are limited to term deposits or certificates of deposits having maturity of up to 3 years, deposits in trust companies, national banks, savings banks, banking companies or cooperative banks or obligations issued or unconditionally guaranteed by the US government. Additional investments such as United States Government securities or their agencies purchased under an agreement with a bank or banking company with conditional repurchase agreements as well as shares of beneficial interest issued by money market funds may also be an option. Please refer specifically to the law regarding these investments.

The use of a combined investment fund (for example the Massachusetts Municipal Depository Trust, MMDT) is authorized. The State Treasurer has contracted with an investment manager to administer and manage the MMDT. There are two funds available. The Cash Portfolio is a cash portfolio investing in CDs, T-Bills, repos, Bankers Acceptances and Commercial Paper. The Short Term Bond Fund provides a longer investment horizon participating in a diversified portfolio of high quality investment grade fixed-income assets. MMDT is a highly liquid pool, where funds can be transferred out on same day, but can also be used to schedule future dated distributions.

Trust funds are invested in accordance with Chapter 44 § 54 M.G.L. In addition to the options listed above, § 54 allows for a wider variety of investments as provided for by the State Banking Commission for trust funds that in aggregate exceed $250,000. Pension funds are under the jurisdiction of the local or county contributory retirement system and are not subject to the provisions of Chapter 44.

Safety of principal is the foremost objective of an investment program.

Investments should be undertaken in a manner that seeks to ensure the preservation of capital through the mitigation of credit risk and interest rate risk. These risks should be lessened by the diversification and prudent selection of investment instruments and choice of depository. Credit risk is the risk of loss due to the failure of the security issuer or backer. Interest rate risk is the risk that the market value of the security will fall due to changes in general interest rates.

Public investments in Massachusetts are not protected through any provisions in State law. Therefore, they routinely sit uncollateralized unless municipalities take measures to require it. Banking institutions are willing to put up collateral but may do so at a cost to the town in the form of a lower interest rate. The Treasurer's banking relationships should help minimize the disparity.

Federal Deposit Insurance Corporation coverage is limited to $250,000 per customer per bank. Some banks may offer Depositors Insurance Fund which provides private insurance above the $250,000 limit. Auditors are required under the Government Accounting

Standards Board (GASB III) to note in the audit of a municipality whether investments are collateralized or not. The Massachusetts Municipal Depository Trust is not considered an uncollateralized product under the regulation. When obtaining investments through banks or broker/dealers, it is important that a municipality take delivery on securities or, at the very least, that they be held in custody in the name of the municipality by a third party. These agreements should be readily available for your auditors to review.

Banking Relations

Traditionally, banks have served local governments primarily as depositories for funds for security purposes, to serve as paying agent for payroll and accounts payable services, and providers of credit to meet municipal borrowing needs. In the past, it was appropriate that criteria such as convenience of location and community relations governed the municipality's choice of its depository or depositories.

Currently, banks are offering more and more financial services that complement or even duplicate functions traditionally performed by the municipality itself; i.e. lockbox, remote deposit, and electronic payments. Depending on a number of factors - including the cost of purchasing these services from a bank relative to the cost of providing them in-house, and the extent to which the municipality desires to upgrade its financial management capacity - the municipality may wish to procure a portion of the many services now provided by banks.

Not all banks are equipped to offer the full-range of services needed by a municipality. As a result, many municipalities are not aware of these opportunities to update their banking procedures, and are still functioning under longstanding, outmoded banking relationships. As an integral part of improving financial management functions and moving toward a more effective cash management system, municipalities should reevaluate their banking relations in light of current opportunities.

Shopping for Interest Rates

A Treasurer should review relevant banking information and request weekly/monthly quotations for investment rates. Multiple quotes should be received for any term investment. This competition greatly enhances cash management.

Account Services

The way in which municipalities configure their bank accounts is a key determinant of the effectiveness of a given community's cash management system. A review of common practices suggests that many local governments can achieve substantial gains in investment income by making some straightforward changes in their account management. These changes can involve both the number and type of accounts.

The majority of your banks offer online account access with features such as the review of account activities, electronic statements, internal fund transfers and ACH/wire transfer capabilities. Technology allows for more frequent account reconciliations which allow a more accurate analysis.

Larger disbursements such as debt service and regional school assessments may be made electronically specifically on their due date to maximize the time period the money is invested. These services may be offered at little or no charge to the municipality depending on their banking relationships.

Services That Can Improve Municipal Cash Management

A good cash management system is designed to help a municipality maximize the benefit it gets from its cash resources by ensuring that the municipality:

- collects its accounts receivable in a thorough and timely manner;
- maintains "on hand" (in its checking accounts) only enough cash to pay out immediate accounts payable as they come due; and
- invests all other cash as quickly as possible into investments yielding the highest possible return.

The more effectively the municipality can perform these functions, the more investment income it will earn. In turn, the more investment income it earns, the greater the financial resources available to the municipality to pay for the public services it provides.

The table at the end of this chapter presents a list of services offered by banks, companies, MMDT and federal and state governments to help address these cash management needs. If at certain points in the course of the cash management cycle the community might have short-term cash shortfalls, borrowing to meet these obligations becomes a cash management service obtained from the bank. (See Chapter 12.)

Collection Services

Collection services offered by banks are designed to accelerate a municipality's cash receipts and thereby allow the municipality to invest those receipts in a timely manner. This "acceleration" is accomplished by decreasing the collection float. Collection float can be reduced by instituting one or a combination of the following banking services:

- A lock box system speeds up the collection process by eliminating handling by municipal
- collectors' offices of certain routine remittances;
- Over-the-counter payment can help to accelerate a municipality's bill collection by increasing the taxpayer's bill-paying convenience by providing over-the-counter collection at a bank;
- Armored cars and night depositories can also improve the speed at which a municipality's receipts are deposited in its accounts, and can be put to use either to meet current obligations or to begin earning interest. Aside from the security advantages afforded by a night depository, this service is especially beneficial if the municipality's accounts are structured to earn interest overnight, that is, beginning immediately upon deposit;
- Wire transfers, used in lieu of checks, involve the electronic transmission of payments from one bank to another through a wire system. Wire transfers are not cost effective for all transactions. In general, wire transfers will be cost effective for large transactions such as intergovernmental grants, proceeds from investment sales and debt issuances, and tax or utility payments from out-of-town organizations;
- Electronic tax payments are becoming increasingly popular with taxpayers. Banks may offer the service directly or team with companies specializing in the service. Costs, if any, are usually borne by the taxpayer and the result is timely payments. Care must be made that an adequate system for tracking and crediting payments is provided;
- Credit and debit cards are also popular among taxpayers. While there may be some cost to the municipality, and reconciliation is an added task, the convenience to taxpayers may offset these costs by getting tax and fee payments into the hands of the municipality early;
- Remote capture allows for inhouse check processing to improve time from receipt to deposit. Processed checks do require secure storage and shredding after the required holding period. This saves time and transportation costs. Some fees are normally associated with this service.
- Federal Automated Clearing House Direct Deposits and Direct Debits allow a treasurer to make same day payments and receive same day deposits at a minimal cost. This has many of the beneficial features of wire transfers, but at a reduced cost.

Pricing Banking Services

Banks will charge municipalities for services rendered. The price of a particular banking service will depend on many factors, including the number of municipalities purchasing the service, the costs of the equipment and labor needed to provide the service and how much of the service the municipality will use.

Commonwealth of Massachusetts procurement laws require that cities and towns seek proposals for banking services from a number of different banks. Banking services should be bid periodically to ensure the most competitive cost structure. The treasurer should send a "Request for Proposal" to qualified banks, and should also place a legal advertisement in at least one local newspaper. The office of the Inspector General of the Commonwealth has issued an acceptable format for the process (see www.mass.gov/ig).

The municipality can pay for its banking services in several ways:

- Direct payment, in which the bank prices each service offered, and the municipality reimburses the bank periodically for charges incurred during that period from appropriated funds in the treasurer or collector's budget;

- Compensating balances, where instead of charging the municipality a fee to be paid directly for service(s), the bank specifies a minimum balance that the municipality must maintain with the bank in non-interest bearing accounts. The bank can then lend this money (subject to the reserve requirement) and earn interest, which will at least cover the cost of services provided to the municipality;
- Hybrid, where the bank offers an earnings credit based on balances and then bills for the net amounts not covered by the credit.

Opportunity at a Cost

Services offered by banks represent efficiencies of scale and proprietary technologies. These opportunities are available at a cost to the municipality. A simple equation noting a total cost to outsource a service and the additional gains to the municipality's operation can easily be computed. For example, a town may opt to use a lock box service for excise bills. A cost of 25¢ per bill processed for 10,000 bills expected yields a cost of $2500. The cost of hiring a part-time clerk to process these bills might easily exceed this dollar amount. The decision would be made to enjoy the bank's economy of scale and have the larger institution perform the service without hiring an additional employee.

Some Limitations of Compensating Balance Banking Services

The compensating balance method of municipal banking is more difficult to evaluate and can present some hidden pitfalls for municipalities. Under a direct payment system, the municipality receives an itemized statement of charges for service. The compensating balance method presumes an established deposit and a presumed interest rate in exchange for an estimated use of certain banking services. It is difficult for a Treasurer to accurately assign a dollar amount to its banking services. Also, compensating balance agreements may extend out to three years. It may be difficult to renegotiate or opt out of the longer term agreement if unfavorable circumstances exist. With direct payment, the municipality rather than the bank would have access to this "extra" cash and could invest it on its own rather than the bank's advantage.

The Municipal Modernization Act removed the exemption to c. 30B for contracts for bank services that are subject to the maintenance of a compensating balance. The municipal procurement statute c.30B applies to banking services. The Act also eliminated the DOR's role in prescribing types of services and in receiving reports of these services.

Chapter 44 § 53F M.G.L., expressly authorizes a municipal or district treasurer to enter into formal "compensating balance" agreements with banking institutions. It should be noted, however, that the law also:

- Requires that any such agreement be in writing and not exceed three years;
- Provides for specific limitations on the types of services which may be procured under a compensating balance agreement;
- Establishes a local approval process for all such agreements and
- Sets in place annual reporting requirements relating to such agreements, and requires the treasurer to disseminate the report to the local administration as well as the Office of the Inspector General.

The important thing for municipal financial officers to realize about compensating balances is that they represent a real dollar cost to the municipality in terms of lost interest income — income that the municipality could have earned by investing the amount of the compensating balances in the highest interest-bearing accounts available to it. When this cost is equal to the municipality's banking service charges and is used to pay those charges, the municipality does not lose anything through the compensating balance method and earns a return on all collected balances.

Communities that utilize compensating balances to pay for services should insist that banks agree to provide, as part of the arrangement, ongoing information on the costs incurred by the community based on the volume of transactions and agreed-upon fees. In addition, town fiscal officers should make sure the earnings on the compensating balance are reported by the bank and monitored by the community, with earnings in excess of the cost of services being remitted to the community. From a municipality's standpoint, this accountability and monitoring ensures the most desirable and advantageous arrangement of payment for banking services, regardless of what banking services system is being utilized.

This chapter was prepared by Elizabeth W. Klepeis, Donald Levitan and Marc Waldman and was updated by Richard Carmignani, Jr.

Categories Of Services And Related Cash Management Goals

CATEGORY	SERVICES	GOAL
Collection Services	Lock-Box System Over-The-Counter Payment Armored Car Services Night Depository Wire Transfers Electronic Payments Credit/Debit Cards Direct Deposits and Debits	Accelerate Cash Receipts
Account Services	Regular Checking Accounts Concentration/Zero Balance Accounts Wire Transfers Daily Account Notification Check Sorting Account Reconciliation Online Banking Checks on CD-Rom Savings Bond Issuance For Employees Direct Payroll Deposit Online Payment of Withholding Taxes	Minimize "Idle" Account Balances
Investment Services	Money Market Instruments Investment Advice Time Deposits Retirement Plan Services Trust Services Sweep Accounts	Promote Effective Use Of "Idle Cash In Earning Return
Borrowing Services	Financial Advisory Services Underwriting Services Paying Agent Services Lending Activities Related To Community And Economic Development Projects Bond Counsel Services	Meet Short and Long Term Borrowing Needs


Chapter 9: User Fees and Enterprise Funds

Introduction

The federal court system has defined a tax as "an enforced contribution to provide the support of government." *United States v. Tax Commission of Miss.*, 421 U.S. 599 (1975).

In Massachusetts, property tax revenues derive from a tax rate and property values, with little or no link to specific government services. In contrast, user fees and charges support the provision of a specific municipal service, with the users having the option to decline the service and avoid the fee.

Historically, user fees have been a viable but largely underutilized source of revenue. With the constraints on property tax increases imposed in 1982 by Proposition 2 ½, towns increasingly turned to user fees to support services once financed by property taxes. Thus, much of the state's guidance on this subject was established in the mid to late 1980's.

User Fees Defined

A Massachusetts Department of Revenue's Division of Local Services 1988 IGR defined User Charges/Fees as: "A municipal funding source where payment is collected from the user of a service to help defray the cost of providing the service." The reader may wish to review the state's current versions of *Municipal Finance Glossary and Overview of Statutory Treatment of Municipal Revenues* for additional guidance on this subject.

A user fee is simply a charge to the user of a specific government service. The underlying philosophy is that those who use or benefit from a program or service should pay for it. The direct and indirect costs of various services are analyzed, fee mechanisms studied, and fees and rates established to recover the full cost of service delivery.

User fees consist of two broad types of charges, and it is essential to distinguish between them. User charges are based on the goods and services used by an individual, group or business, for example sewer and water user charges. Other fees, such as licenses and permits, might reflect the costs of the government's review and regulatory processes.

User Charges

Such charges introduce a business-like relationship between the user/customer and the governmental unit imposing the charges. The customer has the option to avoid both the service and the charges, and the governmental entity provides only the level and quality of service for which users are willing to purchase.

Individuals, groups, businesses, and organizations pay these charges for goods or services received. The revenues from these charges are intended to help defray the costs of services, not to regulate the activities. Examples of this type of charge may include the use of public buildings or recreational facilities, copying, notary services, etc.

User Fees

This second category comprises fees assessed on individuals, groups, businesses and organizations for the opportunity to participate in a government-regulated activity. Examples of these regulation-oriented charges include fees for permits to build or modify structures, court and legal expenses, and permits to conduct garage sales. These user fees might be considered "mandatory," since an individual or business may not proceed with a covered activity without regulatory review and the payment of the associated license or permit fee.

Legal Test of User Charges

Just as the federal courts have defined taxes, the Massachusetts court system has established a three-point test to determine whether a user fee may be classified as such. Emerson College v. Boston, 391 Mass. 415 (1984).

In the Emerson case, the court reached the conclusion that the charges imposed by the city produced revenue to defray the cost of a public benefit rather than a fee paid for a benefit limited to the owners of the property.

This landmark case resulted in the identification of three common traits that are used to distinguish fees from taxes in Massachusetts. They are:

- the service must provide a direct benefit to a party in exchange for payment in a way not shared by other members of society;
- the service must be optional, with the party having the choice to refuse the service and
- the charge must compensate the specific governmental unit for the cost of delivering that service only. (The governmental unit may not collect user fees to simply raise general revenue.)

There have also been Massachusetts court cases where imposed charges have been upheld as valid fees. In Southview Co-Operative Housing Corp. v. Rent Control Board of Cambridge, 396 Mass. 395 (1985), the court concluded that charges levied against landlords in filing petitions for individual rent adjustments were valid fees. In another case known as Commonwealth v. Caldwell, 25 Mass. App. Ct. (1987), the court also found that a mooring and slip fee assessed to vessel owners by a Harbormaster acting under a municipal ordinance was a valid fee and not a tax.

In both of the above cases, the court determined that the revenues raised directly compensated the government unit for the cost of providing the service. On the flip side, municipalities may be imposing fees that exceed the cost of the services being provided. Communities should take care to verify that local fees are based upon reasonable costs. User fees should not be used to generate revenue in excess of the cost of providing the particular service. The burden for proving the illegality of a user fee rests with the party challenging it.

User Charges: Promoting Equity and Efficiency

Apart from the role user charges play in a town's fiscal plan, proponents of user fees and charges argue that they offer substantial additional benefits to communities. These benefits include:

- promotes equity by passing the cost of providing a service directly to the end user, rather than burdening those who neither need nor want these services. Moreover, user fees can replace and enable general fund revenue to sustain services that benefit the broader community;
- improves allocation of public resources, predicated on a free market. When the consumer determines both the value of the service and the level of demand, government is encouraged to provide only the amount of service needed. Public administrators can adjust fee schedules or eliminate services based on citizen demand;
- establishes a revenue source that may vary with the demand for specific services. As demand for a service increases, so does the revenue stream; as demand declines, revenues do the same;
- enables pricing flexibility created by economies of scale. As demand rises for certain services, delivery costs may be reduced, reflecting the lower costs of more efficient operations and
- allows linkages to other governmental efforts. User charges can be established to benefit the local quality of life. The use of increasing block rates in water and sewer utilities is an example of fee structures that are deemed to protect the environment because they promote water conservation.

Challenges to User Fees

While user fees offer advantages for funding public services, detractors of the practice also abound. The most common argument against user fees is their potential to be regressive in nature. They profess that user fees place a greater burden on lower income residents than on middle or upper-income residents. The argument is that those who may most need a service may be least able to pay for it.

The issue that user fees may be regressive is not the major argument here in Massachusetts; it is that user fees represent a way of circumventing the limits of Proposition 2½.

Thus, some interpret user fees as back door taxes that are used to fund municipal services formerly funded by general revenues. Subscribers to this point of view consider such user fees an unfair burden on the specific users, who once paid for these services through property taxes or other general revenues.

Unlike local income, property and other taxes, user fees are not deductible for federal income tax purposes. In some communities, town meeting members each year move to shift some fees for services to the tax levy. They reason that the tax deductions for higher property taxes will reduce out-of-pocket costs after taxes. This argument is generally not valid with respect to itemized charges for services to a specific property that are added to the property tax bill. The federal personal income tax code allows deductions for property taxes only when the taxes are based solely on the value of the property. This has become less of an issue with the passage of the Tax Cuts and Jobs Act of 2017 which limits the amount of state and local taxes that can be deducted on a Federal income tax return.

More recently, the State Supreme Judicial Court re-examined the issue of fees, and distinguished between "regulatory" fees; defined as reasonable fees that are charged to defray the cost of issuing a license that the municipality lawfully requires for one to engage in a particular activity, from "proprietary" fees; defined as fees exacted in exchange for the use of municipal property (e.g., a water or sewer system user fees). In Silva v. City of Attleboro, 454 Mass. 165 (2009), the "voluntariness" standard set out in the Emerson case was determined not to apply to a regulatory fee (in the Silva case, the fee was for a burial permit).

Enterprise Funds

An enterprise fund accounts for the income, expense, assets and liabilities of financing specific services to the public, where the governing body intends to recover the costs of providing the services through user charges.

Governmental units operate and finance these service activities in a manner similar to a private business or enterprise. Rates and user charges are established, either as part of the budget process or as a separate, formal rate-setting procedure, to cover direct and indirect costs, including depreciation of assets, expenses, replacement or improvement of assets, and efforts to retain earnings for future capital investments.

While sound business practice and long-term financial planning might dictate creation of an enterprise fund, municipalities may also do so to achieve some broader public policy objectives. Some elected and appointed officials believe that those who benefit from a particular government program should pay for the program through user fees. These officials may conclude that an enterprise fund is the best mechanism for systematically accounting for all direct and indirect operational costs and revenues. Thus, an enterprise fund not only yields the financial data needed to periodically determine the required level of revenues, but also responds to public policy, management control, accountability and other objectives.

By accepting the provisions of G.L. Chapter 44, §53 F½, a town may establish an enterprise fund to segregate the accounting for a group or class of similar municipal services. Without accepting the special legislative provisions, all user fee receipts and related disbursements are commingled within the general fund. If established, the community must operate the enterprise fund for a minimum of three years before the provisions may be rescinded. After at least three years, a legislative body, subject to the local charter, may terminate the enterprise fund.

If no special legislation is adopted, service expenses in excess of revenues must be raised through the property tax levy or from other general revenues. Revenue surpluses are rolled into the general fund balance and may not be applied to reduce future user fees or be appropriated to maintain assets used to deliver services.

The most significant difference between general governmental accounting practices and enterprise funds is the recognition of revenues when earned and expenses when incurred (the full accrual basis of accounting). Municipal accounting in Massachusetts is generally on a full cash or modified accrual basis.

Only Massachusetts cities and towns may adopt an enterprise fund pursuant to G.L. c.44, § 53F½. Regional schools, vocational-technical schools and/or special purpose districts may not adopt an enterprise fund, unless permitted by special legislation. Enterprise funds may be established, "for a utility, health care, recreational, transportation facility or cable television public access.." Examples include:

- Public utilities – water, wastewater, solid waste;
- Health care – ambulance service, nursing homes;
- Recreation – skating rinks, pools, golf courses;
- Transportation – airports, marinas, and,
- Cable television public access (See IGR 2016-102).

A community may not establish enterprise funds for normal government operations or services such as public safety, inspectional services or cemeteries.

In April of 2021 the Division Of Local Services issued Informational Guideline Release (IGR) No. 21-11. This document supersedes IGR No. 08-101 and inconsistent prior public written statements. This document is now known as the Enterprise Manual and it is the definitive source of general information relative to the operation of an enterprise fund in Massachusetts.

Is An Enterprise Fund Appropriate?

The first decision a community must reach before determining which accounting system will be most appropriate is whether or not a town should fully recover the costs associated with certain municipal services. In reaching this decision, a town should consider the following questions:

- Who are the customers receiving the services?
- Are comparable services being provided by the private sector? By neighboring towns?
- Is there a statutory obligation to provide this service?
- What are the long-range plans for this service?
- Do the user fees being charged cover direct and indirect service costs?

While there are no "right" answers to these questions, towns generally create enterprise funds for services that meet the following profile:

- the service is widely accepted by a broad base of customers;
- competition is limited, and the service enjoys competitive advantages: price, location, etc.;
- the governmental unit intends to continue providing the service, that is, to stay "in the business";
- user fees either cover all costs or may be increased or restructured to do so;
- accountability for the service;
- response operation is clear.

Additionally, while the intent of establishing an enterprise fund may be to recover 100% of the cost of providing a service, it is not a requirement to recover full cost when establishing an enterprise fund. A community may want to establish an enterprise fund so that it can easily identify the annual subsidy provided for a particular service.

Finance committees may wish to assess fee for service programs in their budgets to determine whether or not an enterprise fund is appropriate. The enterprise fund approach can ensure that the infrastructure for critical services, such as water and sewer, can be properly maintained and upgraded. Many communities are finding that the demands for services funded by the tax levy leave few resources for timely capital investment in their infrastructure.

User Fee "Best Practice"

Whether accounted for in the general fund or by an enterprise fund, user fees may be considered, adopted, and periodically evaluated through a five-step process:

1. define the services to be provided on a user fee basis;
2. estimate demand for the services;
3. calculate the full cost of the services using cost-

accounting techniques;

4. determine the total cost of delivering a "unit" of service; and
5. establish a fee structure to recover service costs and preserve the asset base.

This process requires good business instincts and some competency in cost accounting. A thoughtfully appointed finance committee can be rich in these interests and skills. While many members may initially be unfamiliar with the idiosyncrasies of municipal accounting, most can easily relate to activities similar to those of a business in the private sector. If a business analysis suggests that there is a market for a particular municipal service and that customers will pay fees adequate to recover costs, then the committee's efforts should focus on accounting for service costs.

The town's accounting system may track all revenues and expenditures in the general fund, but which costs are related to a specific service? The direct costs of a service are generally obvious: wages and salaries, electricity and other utility costs, supplies, materials and some capital outlays. However, municipalities must also consider a service's indirect costs, such as insurance, employee pension costs, operational overhead, municipal space, debt service, etc. These expenses usually appear in other areas of the town's budget. The annual cost of capital investments in inventories, facilities, equipment and infrastructure must also be accounted for. The local government's financial systems should properly track the addition, deletion and depreciation of their communities' capital investments and inventories.

Considerable analysis may be required to identify and quantify indirect costs associated with a specific service. Typically, the town's budget presents lump sum appropriations and the accounting system records gross expenses for costs such as property and casualty insurance premiums, worker's compensation premiums, group health and medical insurance, pension assessments and principal and interest payments. Identifying and separating these indirect costs is essential to implementing an enterprise fund. It is recommended that every community with an enterprise fund establish a written, internal policy regarding indirect cost allocation and should review this policy annually. The policy should be reasonable and calculated on a fair and consistent basis. Local financial officials should understand and agree on what indirect costs are appropriated as part of the general fund operating budget and what percentage of these costs should be allocated to the enterprise fund.

Enterprise funds account for their fixed assets and long-term liabilities on their balance sheets and income statements. This method of accounting enables rate setters to properly provide for the annual depreciation expenses and capital outlay requirements of the enterprise.

This chapter was originally prepared by Donald Levitan, Sheryl McMahon, Mark Morse and Kevin Gookin. It has been updated over the years by Michael Daley and for 2021 by Mark Milne.

Chapter 10: Municipal Accounting and Auditing

Accounting: The Basics

The dictionary definition of accounting is “the art or system of recording, classifying and summarizing commercial transactions in monetary terms.” The objectives of municipal accounting include the demonstration, by public officials, of the following:

- their exercise of appropriate stewardship over resources provided;
- their expenditure of funds in accordance with the dictates of the governing body (town meeting) and outside federal and state agencies;
- their presentation of year-end financial statements in accordance with accounting principles generally accepted in the United States.

The Governmental Accounting Standards Board (GASB) is the authoritative standard setting body that provides guidance on how to prepare financial statements in conformity with generally accepted accounting principles (GAAP). Users of these financial statements (such as investors and rating agencies) rely on the GASB to establish consistent reporting standards for all governments in the United States. This consistent application is the only way users can assess the financial condition of one government compared to others.

Governments must adhere to GASB pronouncements in order to issue their financial statements in conformity with GAAP. The users of the financial statements also rely on the independent auditor’s opinion. If your financial statements have significant departures from GAAP, the independent auditors’ may issue a modified opinion or a disclaimer (where no opinion is given). These types of opinions may have an adverse effect on your bond rating and your ability to borrow money. In many cases, the failure to issue audited financial statements will result in a violation of an existing bond covenant and can have serious implications.

It is important to remember that the GASB is an independent body not associated with the United States Government or the Commonwealth of Massachusetts. The GASB pronouncements are not a federal or state mandate for financial statement reporting.

The accounting process in Massachusetts municipal government is unique; it is a shared responsibility among a number of financial and operating departments. The primary accounting responsibility lies with the town accountant. However, other municipal officials, such as the assessor, collector, treasurer, school business manager and water and sewer manager, also track and record financial activity. While this process can be criticized as duplicative, it can be a strong internal control provided the individual departments reconcile their accounting records with each other on a disciplined basis.

The process of “Accounting” is simply the system of recording the financial transactions of an entity. The actual individual accounting entries are repetitive by nature and are not complicated. However, how these individual transactions are classified, summarized and reported is the key for an effective accounting system.

The process of municipal accounting is threefold:

1. The town conducts its business and records its financial activity simultaneously on books of original entry.
2. At the end of the fiscal period (a month, quarter or at year-end), the accounting organization “closes its books.” This is a collaborative process that

confirms that financial transactions were accurately recorded. Bank reconciliations are a classic example of the closing process. A key element of the accounting close is the reconciliation of independent departmental records with other applicable departments. Differences should be investigated and corrections made on a timely basis.

3. The preparation of management reports for the administration, department heads and, ultimately, the taxpayer. Monthly financial reports typically include budget and expense reports for individual departments indicating the status of their allotted budgets.

The accounting system should have a series of key controls in place that are performed consistently and that verify the balances recorded on the accounting ledgers are properly approved and classified. These procedures should clearly identify and correct errors in a timely manner. Reconciliation of account receivables, cash and departmental balances should be completed at least on a monthly basis.

Finance committee members can assess the sophistication of their town's financial organization by observing the frequency and timeliness of the accounting closings and the quality and relevance of management reports. A classic symptom of a sub-standard operation is the inability to close the books as of June 30 (the last day of the fiscal year) and complete an audit on a timely basis. In the private sector, this process is typically completed within three months.

Municipal Accounting Contrasted to the Private Sector

At least some members of most finance committees have outside business and/or financial expertise. The differences between private and public sector accounting historically have been extensive. In June 1999, the GASB issued Statement 34 – "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments" which closes the differences dramatically. It established new criteria on the form and content of governmental financial statements. GASB Chairman Tom L. Allen called Statement 34 "the most significant change in the history of governmental accounting. It represents a dramatic shift in the way state and local governments present financial information to the public." The GASB continues to issue new pronouncements which change the governmental financial statement reporting model almost annually.

Under the new model, anyone with an interest in public finance—citizens, the media, bond raters, creditors, legislators, and others—will have more and easier-to-understand information about their governments. Among the major innovations of Statement 34, governments will:

- Report on the overall state of the government's financial health, not just its individual "funds";
- Provide the most complete information ever available about the cost of delivering services to their citizens;
- Include, for the first time, information about the government's public infrastructure assets—such as bridges, roads, and storm sewers;
- Prepare an introductory narrative section analyzing the government's financial performance.

The government now presents an Entity-wide Statement of Net Position and a Statement of Activities under the full accrual basis of accounting that is the same basis of accounting used by the private sector. In these statements, all short-term assets and liabilities, such as cash, receivables and warrants payable, are included as well as long-term assets and liabilities, such as capital assets, bonds payable and compensated absences. In most cases, revenues are recognized when earned and expenses when incurred regardless of when the cash is received or disbursed. To get a sense of the impact on your Town's net position read your current financial statements and these liabilities disclosed in the notes and required supplementary information.

Accounting Systems

Accountants and auditors in the Commonwealth currently use either one of two accounting systems or both systems at the same time. These systems are statutory and uniform municipal accounting.

Statutory System

The statutory system is the older of the two accounting systems. It uses a single fund (i.e., one general ledger) to record all transactions that occur during the course of the year. If, for example, the municipality is building a wastewater treatment facility that is being funded by grants and long-term debt, these activities are accounted for along with normal annual operating expenses in the general ledger. While the accountant and the treasurer may be able to differentiate between these types of activities, managers and interested outside parties may have difficulty understanding financial statements prepared from this system because all activities are mingled together.

Although the Statutory System is allowed, it is no longer recommended. It is difficult to separate the budgeted activity from the non-budgeted activities and does not facilitate timely financial reporting and preparation of the year-end audited financial statements.

Uniform Municipal Accounting System (UMAS)

UMAS is a multi-fund accounting system based on the national Generally Accepted Accounting Practices (GAAP) for governmental units. Because GAAP principles are accepted and used nationally, someone in a town in the state of Utah can read a set of financial statements from a town in Massachusetts and be able to understand the figures and compare them to those from any other municipality. This updated accounting system recognizes the variety of activities performed by a municipality in several funds. Using the previous example of constructing a new wastewater treatment facility, under a UMAS system: normal municipal operations would be accounted for in a general fund; the construction of a wastewater treatment facility would be accounted for in a capital project fund; and other town projects that expended or brought in money would be accounted for in still other funds.

Today, town accountants are increasingly sensitive to national governmental accounting models. While UMAS continues as a "guide", the state also looks to outside agencies, such as the Governmental Accounting Standards Board (GASB), to establish the principles of accounting and reporting to be followed in Massachusetts.

Generally Accepted Accounting Principles (GAAP)

Generally accepted accounting principles are uniform minimum standards and guidelines for financial accounting and reporting. The uniqueness of governmental operations requires a separate GAAP for governments. Since 1984, the establishment of governmental GAAP has been the responsibility of the Governmental Accounting Standards Board (GASB). GAAP is intended to achieve some level of standardization among entities' financial reporting and accounting methods. GAAP covers matters such as fund accounting, methods of recognizing revenue and expenditures, accounting consistency between periods, long-term liabilities and disclosure requirements for external financial statements.

Auditors, in issuing their year-end reports, state that the town's financial statements are fairly presented "in accordance with generally accepted accounting principles".

As stated previously, while the state remains concerned with statutory compliance, GAAP, as promulgated by GASB, is now the requirement for year-end reporting by Massachusetts towns. Finance committee members (ideally through an audit committee) should familiarize themselves with the accounting principles followed by their town and ensure that such principles are in compliance with GAAP.

The Role of an Independent Audit

An audit is an independent examination of a municipality's financial transactions and account balances that determine whether a town's financial statements are "fairly presented." The audit process involves a review of fiscal procedures and controls, the establishment of audit scopes, the conduct of tests and independent confirmation and calculation of assets, deferred outflows, liabilities and deferred inflows.

Since the mid-1970's, independent audits in Massachusetts have become commonplace. Audits are mandated by the federal government for those communities receiving in excess of a stated amount of federal aid. In addition, the bond market expects audited financial statements to support debt sales.

The major argument for an audit is the annual outside discipline imposed on the audited financial organization(s). The presence of an outside professional "looking over the shoulder" is, among other things, an incentive for accounting officials to maintain sound procedures and accurate books of account.

Audit Products

A clean audit does not guarantee the absence of fraud. While auditors plan and construct their audits to identify fraud that would result in misleading financial statements (this constitutes a "major" fraud), most towns cannot afford a forensic audit whereby each and every financial transaction is subject to outside scrutiny.

There are three products of audits: financial statements, a schedule of federal awards and a management letter. The management letter outlines the auditors' recommendations for improvements in accounting procedures, internal control and other matters. Management letters can also be noteworthy for what they do not say. A truly "clean" management letter represents a validation that the accounting organization and processes are in good shape.

A sometimes disproportionate level of interest is placed on audit management letters versus the financial statements. This is because the letter is written "in English" and municipal officials who do not understand the financials may be embarrassed to ask questions concerning them. Finance committee members should ask for and review both the management letter and audited financials, and should take the initiative in understanding, and communicating to other local officials, what the financials disclose concerning the town's finances.

Municipal officials should also conduct an exit interview with the independent auditors to learn first-hand of the auditors' assessment of the financial condition of the town. The discussion can give municipal officials the chance to learn of noteworthy trends, financially-troubled operations and the viability of systems and controls in their community.

Audit Committees

Audit committees are commonplace in the private sector, but in only a few municipalities in Massachusetts. However, in the last several years there has been a trend for more communities to form audit committees. In some instances, select boards, school committees and/or finance committees function as an ad hoc audit committee. A well-constructed audit committee can bring together qualified and interested citizens who have the time and inclination to review independent audits and their results in-depth.

Increasingly, cities and towns will implement audit committees. Finance committees and their members can serve their communities well by actively participating in the formation and operation of viable and independent audit committees.

What Municipal Accounting and Auditing Can Do For Finance Committee Members

Municipal accounting results in the generation of information that is useful to finance committees for decision-making purposes. It is essential that the information provided by the accounting process be accurate, timely and relevant.

There are three elements that should be present to ensure that the accounting process assists a finance committee in the discharge of its responsibilities. These are:

- a qualified, dedicated financial "staff" in the town hall. Appointed and/or elected officials should be prepared to work with each other for the common good. The finance committee should be wary of an overly political environment within the town's financial organization whereby officials refuse to work with or otherwise communicate with each other;
- a data processing system that is current and supports, rather than inhibits, the process. The system need not be complex, but it should be comprehensive. All too frequently, the computer can be the scapegoat (justifiably or otherwise) for the failure to provide appropriate information;
- a finance committee that includes individuals with outside financial, business and/or accounting expertise. Acknowledging that the finance committee members are volunteers, those with private sector financial or business experience can ask the right questions, request the appropriate information and act as mentors for committee members without specific fiscal expertise.

At a minimum, the town accountant must provide budgetary information to the finance committee as it prepares for an upcoming budget cycle. Finance committees should also be provided monthly appropriation status reports. This information can include prior year actual expenditures, current year expenditures compared to the budget, forecasted current year expenditures and budgeted expenditures for the next fiscal year. Revenue data and/or free cash forecast may also be provided.

However, the track record for submitting interim accounting reports to the finance committee is very mixed. In some cases, finance committees receive no interim reports, especially in communities where the finance committee may be passive or inexperienced and does not know what to request from the town's accounting functions. This lack of reporting can be contrasted to reporting standards in the private sector, where comprehensive monthly — and even weekly or daily — financial statements are routine.

Although many municipalities' fiscal reports deal with budgetary performance only, finance committees should strive toward a reporting standard that includes a comprehensive financial statement package containing balance sheets, statements of revenues and expenditures, changes in fund balances and cash flows. If such information cannot be submitted on a monthly basis, then the finance committee should request it quarterly. It is possible that requests for such information will meet with resistance; however, the reaction of towns' fiscal reporting officers to such requests will tell a great deal about the underlying sophistication of the municipalities' management systems.

Key Areas to Review in the Financial Statements

GASB 34 defines what the minimum financial reporting requirements are for a governmental entity's basic financial statements and required supplementary information (RSI). Listed below are the components of these requirements.

Management's Discussion and Analysis (MD&A) includes an introduction of the basic financial statements and provides an analytical overview of the financial activities. This is a key document to read, as it should highlight the financial position and results of operation of the Town in plain English. The focus is on the entity-wide full accrual activities and the major governmental and proprietary funds.

The Basic Financial Statements include the following sections:

A. The Government-Wide financial statements use the full accrual basis of accounting and include two financial statements. The Statement of Net Position is a statement of financial position at a certain point in time (June 30th) where Assets + Deferred Outflows – Liabilities – Deferred Inflows = Net Position. The Statement of Activities reports the changes in net position for that fiscal year. It is presented on the "net cost" approach where program revenues are subtracted from functional expenses to identify the net (expense)/revenue by functional activity.

   These are the statements that most closely resemble the private sector.

B. Fund Financial Statements (for each of the three fund categories).

   Governmental Category – includes the General, Special Revenue, Debt Service, Capital Projects and Permanent Fund Types (focusing on "Major" funds) using the modified accrual basis of accounting. The financial statements include:

   - Balance Sheet
     Statement of Revenues, Expenditures and Changes in Fund Balances
   - Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual. Presented for the General Fund and each major Special Revenue Fund with a legally adopted budget. This may also be presented as RSI in a Schedule after the Notes to the Financial Statements.

   Proprietary Category – includes the Enterprise (fee for service activities such as water and sewer) and Internal Service (usually self-insured health insurance) Fund Types using the accrual basis of accounting. The financial statements include:

   - Statement of Net Position

- Statement of Revenues, Expenses and Changes in Fund Net Position
- Statement of Cash Flows

Fiduciary Category – includes the Pension Trust, OPEB Trust, Investment Trust, Private-Purpose Trust and Agency Fund Types using the accrual basis of accounting. The financial statements include:

- Statement of Fiduciary Net Position
- Statement of Changes in Fiduciary Net Position

The annual financial statements can be difficult to interpret if you are not fully aware of the unique accounting methods used to prepare them. Listed below are some of the items that may help a reader understand what the financial statements are really saying.

Independent Auditors' Report

Understand the nature of any report "modifications' previously known as "Qualifications", as some are more serious than others.

General Fund's Financial Position

- Understand the components of fund balance.
- General Fund unreserved fund balance should be positive and a policy should be established that sets a specific year-end balance.
- Long-term stability of the fund balance position should be maintained. The outstanding receivable balance should not be too high as it would indicate a problem in collection or the validity of the balance.
- Recent changes for fund balance presentation made by the GASB now require, in most cases, that the Town's Stabilization Funds be combined with the General Fund. Therefore the unreserved fund balance may be significantly higher than you expect due to the new reporting model. However the GASB required that a new note to the financial statements be added that identifies all components of fund balance, including any Stabilization Funds combined with the General Fund.
- Refer to the Budget-to-Actual Statement to see how much "Free Cash" was used. If used, it means that a current period loss was budgeted.
- Ask for the accountant to provide a year-end budget-to-actual report by department. Review this to determine if 100% of the appropriation is either expended or encumbered. In difficult financial times this may be an indicator that a department may have overspent their budget and are shifting current expenses to the next fiscal year.
- There must be a consistent "Structural Balance" maintained where recurring revenues are sufficient to cover recurring expenditures.
- Understand the components of "Operating Transfers".
- Check to see if the General Fund is subsidizing enterprise operations (water & sewer). This would indicate that the "users" are not paying for the full cost of the services.
- During the budget process review any Enterprise Fund fringe benefit and overhead transfer to the General Fund. UMAS allows for a reasonable cost allocation of amounts such as pension, health insurance and shared services such as the Treasury function appropriated in the General Fund to be recovered from Enterprise Funds. Over time the cost allocation methodology may not properly reflect the current budget reality.

Governmental Major Funds

The General Fund is always presented in a separate column of the fund based financial statements as a major fund. GASB also requires any other major special revenue, capital projects, debt service, or permanent fund also be presented as a major fund. These funds are typically significant capital projects (i.e. new high school) or the community preservation fund. There are dollar thresholds established by the GASB where a major fund is required but a community has the option to show any fund as major. Your community may want to suggest that a fund with a lot of local interest be shown in its own column.

Special Revenue Fund

- This is a self-supporting fund that should not have any deficits within a sub-fund.
- Footnotes should disclose any permanent deficits that must be funded by the General Fund.
- Review the balance sheet for any significant

receivables which may indicate an unusual delay in collecting revenues.

Capital Projects Fund

- This fund, for one-time projects, is funded through a combination of grants, local contributions and long-term bonds. If the financial statements show a deficit fund balance it may be only temporary until the long-term bonds are issued. If the deficit is permanent, it should be disclosed in the footnotes to the financial statements.

Long-Term Debt

- This liability is not part of the general fund's balance but has a significant impact on financial position.
- Review the notes to the audited financial statements that include the schedule of future payments.
- Review Bond Anticipation Notes outstanding in conjunction with the amount of authorized and unissued debt.
- Low outstanding debt may be an indication that capital needs have not been addressed on an ongoing basis. The need for significant future capital outlays may have an adverse effect on financial position.

Internal Service Funds

These funds account for the self-insured risk financing activities, such as health insurance. Revenues are mainly from employer and employee contributions.

- Special attention must be paid to any significant accumulated surplus or deficit.
- A significant deficit will have an adverse effect on the overall financial position.
- A significant surplus will have a positive effect on the overall financial position.

Gain an understanding on the accrued liability known as "Incurred But Not Reported" (IBNR).

Unfunded Liabilities

- The Unfunded Pension liability is now reported in the financial statements and disclosed in the footnotes and the required supplementary information section of the statements. There may also be reference to a regional retirement system that will have the information. These past service costs must be funded in the future and will have an impact on financial position and future operations.
- Post Employment retirement benefits (retiree's health insurance) are reported on the budgetary statements on the pay-as-you-go method.
- The GASB issued Statements #74 and #75 that requires the Unfunded Postemployment Benefits (OPEB) liability be reported in the financial statements and disclosed in the footnotes and required supplementary information. It requires the Town to complete an actuarial valuation and develop a funding plan. The community does not have to implement the funding plan but it has to report the total unfunded liability. Several communities have passed legislation that established a post employment trust fund which will be used to set aside funds to eliminate the unfunded liability over time. In addition, legislation was passed that amended Chapter 32 by adding Section 20 which now allows communities to establish a post employment trust fund without special legislation. For most communities the unfunded actuarial liability is significantly larger than the unfunded pension liability. It is recommended that you discuss the implication of these new GASB statements with the town accountant or your independent audit firm.
- Compensated Absences are the earned, but not yet paid, vacation and sick leave termination benefits. The liability is recorded in the Statement of Net Position and not in the Fund Based Financial Statements. Large accumulated balances can have an adverse effect on financial position or in the case where after the termination payments are made to a long-time employee the remaining budget may not be sufficient to hire a replacement.
- Landfill Liability is the estimated cost of closing and postclosure care that will require future resources to be allocated to comply with Federal and State regulations. A footnote should disclose the details of the accrued liability.

Summary

A community's financial information is available to officials in the form of year-end financial statements, management letters, and internally produced interim reports. It is management's responsibility to assure that there are systems in place to compile and report the financial position in a timely and accurate fashion. It is the official's responsibility to obtain the knowledge to adequately identify and analyze the components of financial reports that have a direct impact on the community's current and future financial position. Failure to generate such data should constitute a "red flag" that the town's financial systems and policies need re-tooling to move into the modern-day environment. These updates may require the support of the finance committee to invest in upgraded computer systems and/or additional staffing levels.

This chapter was compiled from information provided by James F. Russell, Donald Levitan and James E. Powers and was updated by James E. Powers.

Chapter 11: Capital Improvement Planning (CIP) and Budgeting

Planning for and financing the replacement of a town's infrastructure is an enormous task with significant long-term benefits and consequences. Evaluating assets and their expected useful lives, projecting replacement costs, examining financing options, determining bonding levels, estimating user fees and tax levies and evaluating the impact on property owners are all important steps in the process. This section of the handbook presents information for finance committee members on what capital planning and budgeting is, how it should be done, who should do it, and the role of the finance committee in these activities.

Chapter 41 s 106B M.G.L. states that a town may create a capital planning committee by bylaw, but does not require such a committee. As indicated in previous sections of this handbook, a finance committee's role is community-specific. In some towns, the finance committee also serves as the capital planning committee. In some towns, a separate capital planning committee is responsible for the annual budget and capital plan. In other towns, typically larger ones with staffing capabilities, town administration staff prepare and present the capital budget to the finance committee.

Capital Projects, Capital Budgets and Capital Improvement Programs

A capital project differs from an operating expense. This handbook defines capital projects as major, non-recurring expenditures, for one of the following purposes:

- acquisition of land for a public purpose;
- construction of a new facility or external expansion or major rehabilitation of an existing one. Examples of such town facilities include public buildings, water and sewer lines, roads and playing fields;
- any planning, feasibility, engineering or design study related to a capital project or to a capital improvement program consisting of individual projects;
- equipment for public improvements when they are first constructed such as furniture, office equipment or playground equipment;
- major equipment which is expensive and has a relatively long life such as a fire apparatus, garbage trucks and construction equipment;
- equipment such as police or public works vehicles
- technology infrastructure, computers, or other technology equipment with a useful life of five years or more.

Typically capital projects do not include equipment with a useful life of five years or less.

Most towns establish a policy for the dollar value and useful life of a capital project to further distinguish between capital expenditures and operating expenses. There is no formula for setting these criteria. Some larger towns and cities treat as capital budget requests purchases that cost $25,000 or more and have a useful life of five or more years. Departments include all other expenses in their operating budget requests. Smaller towns may use a lower number, e.g. $10,000, for the threshold cost for a capital item. Some communities also focus on the useful life of an asset, using as little as three years or as much as seven years as a criterion.

Other considerations might influence a town's policies regarding capital versus operating expenses. Such considerations may include the town's total budget or the budget of the department requesting a capital project, or the frequency with which a department requests the capital item. For example, a police cruiser may be a capital item in some towns, but in other towns cruisers are replaced so frequently that they are considered operating costs. If an item is replaced annually, such as police cruisers, it is important to keep it in the operating budgets to reflect the true cost of providing the service annually. These types of items should not be competing with capital projects which are scheduled intermittently over future years. Whatever criteria a town chooses, it is important to be consistent from one year to the next and to apply the criteria uniformly to all requests.

The annual capital budget is the amount of funds appropriated by town meeting in a single fiscal year for all capital projects. A capital budget total should include three types of budgetary information: the total of direct expenditures for capital purposes in the fiscal year; the interest and principal owed on existing debt (debt service), and the estimated amounts proposed to be paid for new bonds to be issued having a first payment due in the fiscal year. For appropriation purposes, the capital budget amounts may be incorporated into the main operating budget article or they could be adopted as separate line items in an omnibus capital article. Some towns vote a number of capital articles at each Town Meeting or group projects by function into different articles. However it is presented for appropriation, for information purposes, the capital budget, including for debt service on prior projects, should be shown in one summary sheet to illustrate the total spending planned for capital purposes in a single fiscal year. The projects approved in the capital budget may not all be completed in the year in which they are approved, and thus are usually voted as part of a capital article that will continue into the future until the projects are completed, or Town Meeting votes any remaining funds for a different use or any remaining balances close out to Free Cash. It is not unusual for a Town to have multiple capital project articles simultaneously in existence from different fiscal years.

The capital improvement program or plan, often referred to as the CIP, is a plan for future capital expenditures, for which no funds have yet been requested of Town Meeting, or appropriated. The plan identifies individual capital projects, anticipated start and completion dates, the amount to be spent each year and the method of financing each project in the plan. Generally, the CIP covers five years into the future. The annual capital budget (the appropriation request articles) should reflect the first year of the CIP. The capital budget is also year two of last year's CIP, brought current to reflect decisions made last year and current fiscal realities. For example, if there are multi-year leases, or a larger project has an increment to be appropriated over a multi-year time period that should have been included in the CIP, and provides the starting place for preparation of each year's capital budget.

Why a Capital Planning Program?

An orderly capital improvement program has many benefits for a town. These benefits include:

- providing a predictable and community endorsed plan for funding capital expenditures;
- focusing attention on town objectives and financial capacity;
- coordinating the proper scheduling of individual projects in relationship to each other;
- facilitating understanding of the relationships between capital needs and operating budgets;
- reducing the risk of having to make expensive emergency repairs and preventing injuries and claims resulting from continued use of outdated equipment and facilities;
- enhancing the community's credit rating, controlling its tax rate, and avoiding sudden changes in its debt service requirements;
- helping to maintain a consistent minimum level of spending for capital projects. In a tight fiscal year, many towns find it tempting to defer or eliminate capital spending as a way of resolving a projected operating budget deficit. Identifying the impact this would have on current and future capital projects can help in setting these priorities;
- identifying opportunities to save money by combining projects. For example, vendors may be willing to reduce prices for a new phone system if more than one building is being improved at the same time;
- identifying and coordinating the most appropriate means of financing projects. For example, purchase

of land for open space could be funded from a combination of the tax levy, debt financing, a state grant, or Community Preservation Act (CPA) funds if the town has accepted this program. The CIP can help increase the opportunities for identifying such alternative sources of funding the CIP; and
- keeping the public informed about capital needs and projects, which can help in building and maintaining public support for specific projects.
- identifying potential areas for cooperation with abutting towns in considering the acquisition of large pieces of equipment or constructing new facilities. Items such as ladder trucks, libraries, etc. may be considered on a regional basis as revenues for such assets become more difficult to find.
- identifying potential sources of funding for energy efficiency projects may be easier if there is sufficient lead time.

The existence of a systematic capital planning process is an important consideration for the agencies that rate municipal debt. Both Moody's and Standard & Poor's rating agencies evaluate the extent to which a town is anticipating and planning for its capital needs.

Who prepares the CIP and Capital Budget?

Towns vary vastly in their structures, traditions and resources, so responsibilities for preparation of a CIP vary as well. There is no right or wrong approach, but experience has shown that some approaches work better than others.

First, if at all possible, responsibility for preparation of the CIP should not rest solely with the finance committee, any one department, board or committee. Preparation of the CIP is a formidable task.

The finance committee should receive the report of the committee or staff who prepare the CIP, and should collaborate with the CIP committee as necessary. Below are some common approaches for developing the CIP and capital budget.

Bylaw Authorized Committee
As mentioned earlier in this chapter, a capital planning committee can be created by bylaw. Chapter 41 s 106B M.G.L. states that such a bylaw shall prescribe the composition, mode of appointment or election and terms of the members of said capital planning committee.

Select Board-Appointed Committee (permanent or ad hoc)
This approach suggests that the overall responsibility for presentation of a capital improvement budget should be with the select board.. The board appoints the CIP committee and gives them overall direction, and the CIP committee reports back to them. The board may adopt or modify the CIP committee's recommendations to them, and then they submit the capital budget to the finance committee and town meeting.

Staff Responsibility
In some communities, the town manager, town administrator or finance director is assigned responsibility for the preparation of the capital budget and the CIP. He or she is often assisted by other town staff, such as the treasurer, town accountant, planning director, town engineer, etc. The CIP and capital budget request is then forwarded to the select board and the finance committee.

Hybrid Approaches
In some towns, a combination of these approaches is used. In the Town of Sudbury, a committee of residents is established by a Capital Planning bylaw, but a second committee comprised of department heads from the town, elementary and regional school departments, led by the Town's facilities director, prepares and submits a draft CIP report to the town manager. This report already weighs overall town priorities as ranked by the department heads and the town manager. The town manager then submits the draft report and project descriptions to the CIP committee. The CIP committee holds public hearings, makes its own analysis, and then presents the recommended annual capital budget to the select board, and finance committee.

Whichever approach works best for individual towns, it is important to be sure that the membership of the capital committee works closely and cooperatively with Town and School staff. Citizen committee members are able to contribute their knowledge and opinions but should not attempt to substitute their judgment on equipment or other capital projects for that of professional department heads who will need equipment and are accountable for the operational results of the department they oversee.

The Capital Improvement Planning Process

Regardless of who is responsible for preparing the CIP in a community, the steps are similar.

1. Organize and prepare for capital planning;
2. prepare an inventory of existing facilities;
3. determine the status of previously approved projects;
4. prepare project requests;
5. develop project evaluation criteria;
6. evaluate project requests;
7. cross departmental and collaborative review of requests
8. establish project priorities;
9. assess financial capacity and
10. develop a CIP report with financing plan.

Organize and Prepare

If a town is putting together a formal capital planning process for the first time, there are certain organizational tasks that need to be addressed. Alternatives for organizational structure should be examined. If a committee is assigned responsibility for CIP efforts, the town should try to ensure that the committee will have the time to devote to the process and adequate staff support. Members of the committee should have a long-range perspective on the town's needs, and good collaboration and communication skills in order to foster participation and support.

Next, those responsible for preparing the CIP should establish policies to guide all participants in the process. These policies should cover such things as the definition of a capital project, criteria for prioritizing projects, methods and timing of hearings and other citizen participation. Finally, forms, instructions and a calendar of important dates and steps should be developed. Forms are important because they help ensure that consistent and complete information is obtained from all those who are making capital requests. Instructions should be clear on how the forms are to be completed.

Prepare an Inventory of Existing Facilities

The next step is to inventory all existing town and school facilities and fixed assets, and assess their condition. Basic inventory information consists of a description of the asset: its location, age, condition, original cost, current value, maintenance and operating costs, type and extent of use, depreciation, estimated replacement costs and any proposed date for rehabilitation or replacement. This should include roofs, floors, boilers, and other key elements of buildings. Most towns should be able to obtain valuable information on town-owned assets from the Town Accountant. Audit standards (GASB 34) require Town Accountants to add fixed asset information to the Town's general ledger. These fixed assets records are valuable for insurance purposes and internal control of property as well as for planning the CIP. Often the town's insurance carrier has a list of insured assets that can serve as a basis for inventory. At a minimum, the inventory should include all buildings and equipment; it is desirable for the inventory to include utilities, community facilities, roads and sewers as well. Towns that are required to comply with GASB 34 should already have begun the process for establishing a database of information on fixed assets. The town accountant should be able to provide a fixed asset report to those preparing the CIP.

Determine the Status of Previously Approved Projects

The status of projects already approved by town meeting is the next important piece of information required in developing the CIP. Identifying projects that are underway, or approved but not yet begun, will clarify whether additional funds are required or if unspent funds will be available from completed or discounted projects.

Develop Project Requests

The process should start with sending to department heads and other appropriate officials and boards a timetable, standardized capital project request forms and instructions for completing requests. This package should include project evaluation criteria. The request forms should ask for a description of any proposed capital project, its purpose and justification, who benefits, how needs are currently met, a detailed cost breakdown, proposed capital expenditures by year, relationship to other projects, effect on the operating budget (including maintenance costs) and recommended method of financing. Projects can be developed into sections for consideration as well. For example, design and engineering funds can be budgeted for in one year, with construction funds scheduled for a following year.

Department heads are not the only ones who should be asked to prepare and submit project requests. Citizen advisory committees and elected officials can also see the need for projects and can complete requests as well.

Develop Project Evaluation Criteria

It is useful to develop and agree on criteria for evaluating projects before beginning the actual ranking of the projects. Criteria may vary for different towns. Below are typical criteria used by towns for evaluating capital requests:

- **Risks to public safety or health**
  Projects that would protect against a clear and dire risk to public safety or public health
- **Required by federal or state law**
  Projects such as fuel tank replacement or asbestos removal
- **Deteriorated facility**
  Projects that reconstruct or rehabilitate a facility to avoid or postpone replacing it with a new, more costly facility or piece of equipment
- **Systematic replacement**
  Projects that would replace or upgrade a facility or piece of equipment as part of a systematic replacement program. This criterion assumes a replacement or upgrading at the current level of service; a replacement that significantly expands or increases the level of service would be evaluated under other criteria.
- **Improvement of operating efficiency**
  Projects that substantially and significantly improve the operating efficiency of a department, or an expenditure that has a very favorable return on investment with a promise of reducing existing or projected future increases in operating expenses.
- **Coordination**
  Projects that are necessary to ensure coordination with another CIP project (such as scheduling a sewer project to coincide with a street reconstruction project so that the street is not dug up a year or two after it is completed). A project may be necessary to comply with requirements imposed by others.
- **Equitable provision of services and facilities**
  Projects that would serve a special needs group or that make equivalent facilities or services available to neighborhoods or population groups that are now "underserved" in comparison with townspeople generally.
- **Protection and conservation of resources**
  Projects that protect those natural resources that are at risk of being reduced in amount or quality or that protect the investment in existing infrastructure against excessive demand or overload that threatens the capacity or useful life of a facility or piece of equipment.
- **Enhancement to economic development program**
  Projects which improve the Town's competitiveness for commercial development, such as adding walkways or other amenities to a commercial area.

Evaluate Project Requests

All project requests should then be evaluated by the CIP committee or staff. A standardized evaluation sheet should be prepared on each project, which should address questions such as:

- Does the requested project contribute to the achievement of existing town goals, policies, plans and work programs?
- What are the general benefits of the project?
- Is the project acceptable to the public?
- What is its total cost (both capital and annual operating expenses)? Is it funded by the tax levy or by borrowing and how would it affect the tax rate?
- Does the project have its own funding source, such as user fees or an enterprise fund or the Community Preservation Act?
- Are there legal requirements that must be met?
- Are there any special circumstances worthy of note? The CIP committee records such notes in evaluating each request.

Establish Project Priorities

Once all the project requests have been evaluated, they need to be ranked in order of priority. Few towns, if any, have the resources to fund all requests. Some recommend computing a numerical "score" for each project in an effort to be more objective about the relative importance of each project. The town of Lexington uses five categories for assigning a "score" for each project, as follows: Justification (25 percent), Efficiency (15 percent), Service (15 percent), Financing (20 percent) and Departmental Priority (25 percent) to arrive at weighted scores. Others feel that because the projects are usually so varied in terms of the service area(s) they cover and the public service goals they pursue, that requests are not comparable. Whether or not a numerical ranking system is used, all projects should be assigned an overall priority rating, such as the following:

- Priority A
  Urgent, high priority projects which should be done if at all possible. A special effort should be made to find sufficient funding for all of the projects in this group.
- Priority B
  High priority projects which should be done as funding becomes available.
- Priority C
  Worthwhile projects to be considered if funding is available; may be deferred to a subsequent year.
- Priority D
  Low priority projects; desirable but not essential; insufficient data/analysis to support request.

Assess Financial Capacity

Since municipalities work with limited resources, each capital request must compete for funding with other capital needs and with operating expenses. Unless the select board is prepared to seek an operating override, a capital exclusion or a debt exclusion of Proposition 2 1/2, the amount of money that can be raised from the tax levy must be considered "fixed."

Towns must, therefore, give careful consideration to their capacity to finance the CIP. Some of the questions that should be asked to help assess this fiscal capacity include:

A starting place for this assessment is the development of an overall debt service report. This report is generally developed by staff and can greatly assist the capital planning committee, the finance committee, the select board, and other key town officials in developing long term, strategic plans. A debt service report should include the following:

1. Spreadsheets containing historical debt information on previous debt issuance and repayment schedules.
2. Debt repayment schedules for amounts due in future years.
3. Projections for debt schedules for projects that have been approved but not yet permanently borrowed.
4. Projections for debt service for projects that are being considered in the future.

These spreadsheets should show the debt information sorted in different ways.

1. By source of repayment. General fund debt, user fee supported debt and CPA funded debt are the primary sources of debt repayment for towns.
2. By type of project. This includes separating out school from town debt or equipment related versus land purchase.
3. By Proposition 2½ limitations. Debt that is issued within the limits of Proposition 2½ should be isolated from that issued outside the limits.

Charts should also be developed based on these spreadsheets for ease of interpretation and use. In addition to showing total amounts to be paid, staff could also develop estimates of impact on the tax rate and average property tax bills for all general fund supported debt, and on user fee rates if the debt will be repaid out of user fees.

If a town establishes a capital expenditure spending target, it will also be easier for taxpayers to understand the impact on their tax bills, as well as community leaders to establish trust in the capital improvement program, and the priorities within it. With this target established it will be clear that each year, a certain amount of money is dedicated toward capital expenditures. Furthermore, it can be articulated that a tax bill will not go up or down as a result of a certain project being favorably voted upon or approved, because it is within that target.

With this type of report in hand, decision makers can ask key questions to decide how much more capital spending is preferred by the community and can be taken on relative to policy decisions about the desirable amount of spending for capital.

These key questions include the following:

- What percentage of each year's fiscal resources should be allocated to operating capital and debt service?
- What are other non-tax levy revenue sources available to support capital spending? These include user fees, private contributions from entities such as a "friends group" or a local foundation, federal and state aid, etc.
- What are the long-term financial projections for revenues and expenditures?
- What is the current policy of the town for using free cash and/or a stabilization fund for capital projects? State law enabling the creation of multiple stabilization funds became effective in 2003, and towns are beginning to use them for funding a CIP. (See the DOR IGR No.04-201).
- Can any of the CIP capital projects be financed through use of the Community Preservation Act? If the town has accepted the CPA, proposed projects to acquire open space, develop affordable housing opportunities, create or expand recreational projects, or restore historical assets can be funded from CPA money. For example, the town of Ashland used CPA funds as part of its overall financing plan when renovating their Historic Town Hall. The CIP committee should work closely with the Community Preservation Committee (CPC) to plan capital projects that are properly the purview of both committees.
- Are there possibilities for regionalization of the use of the asset? Would other towns or cities nearby be interested in working cooperatively to acquire the asset, thereby sharing the cost?

These questions should be considered early in the budget planning cycle, and are properly within the agenda of the finance committee as well as the select board. The finance committee should also establish its role in developing guidelines and recommendations for the CIP committee to use in conducting its analysis.

Sources of revenues that might be devoted to capital projects (e.g., any revenue from non-recurring sources) could also be identified by the finance committee and/or select board. Larger towns with sizable capital needs should consider developing a separate capital and debt policy to guide the CIP committee and town meeting in the prudent use of debt. Issuing debt for capital projects is addressed in greater detail in Chapter 12.

Develop a CIP Report with a Financing Plan

The CIP report brings together a municipality's data gathering, evaluation process and financing opportunities. Proposed projects have been evaluated and assigned into priority groups, and the CIP committee can then recommend including in the CIP projects which are of highest priority. The committee can also recommend funding in the capital budget for those projects the town appears to have the capacity to finance.

These recommendations should be incorporated into a CIP report. Depending on the structure and mission of the CIP committee, the report should be presented to the select board, finance committee, the town meeting, or the town manager. Key sections of the reports should include:

- a capital budget message and overview;
- summary recommendations;
- detailed recommendations and comments;
- a statement of the CIP committee mission, membership, and enabling bylaw;
- CIP policies and goals, including debt policies, fiscal capacity assessments, and capital definitions and
- graphs and charts. These should include different approaches to showing key data such as historical capital spending by function (e.g. education, public safety, public works, technology, etc.); by financing source (e.g. bonding, free cash, other funds), and as a percentage of overall budgetary spending.

In some towns, all project requests submitted for consideration are included in the CIP report. The evaluation criteria and priority rankings would indicate why specific project requests were not included in the CIP itself.

If the report is presented to the select board, they may hold hearings, public meetings on the CIP, amend the CIP or the capital budget, then forward the capital budget and the CIP to the finance committee or separate capital expenditures committee. These committees review and recommend action not only on the capital budget, but also in consideration of the overall capital program and the operating budget.

Town officials should be aware that many of the steps outlined here can be accomplished more efficiently with the use of computers and software. While most towns use some combination of word processing and spreadsheet software in this effort, some towns have turned to database software to collect and evaluate project requests, leading to the identification of priority projects for the capital budget as well as producing a multi-year Capital Improvement Plan. Department heads use pull-down menus to enter each project, with descriptions, costs and coding of relevant evaluation criteria. The full set of projects can then be sorted numerous ways (by department, year of funding needed, type of project) and can be updated easily as decisions are made or new cost information is obtained.

Institutionalize the CIP

The CIP process and committee will have more credibility and greater impact on the town's capital and financial planning if its presence and mission is institutionalized. A town bylaw is one approach for setting forth the capital planning process, including the appointing authority, responsibilities for any committee and a timetable for capital planning activities. Another is to have the select board approve a policy with the process articulated in the policy. The capital planning process should be incorporated in the town's budget calendar.

Department heads, especially, will be better able to meet their CIP responsibilities if they are given advance information about dates set for project requests, project hearings, etc. Standardized forms, distributed on time, i.e. consistent with the established calendar, will also help the process.

A critical factor in the success of any capital improvement program is the support it receives from all participants including department heads, town management, select board, and the finance committee.

The finance committee will make its job easier in the long run by collaborating with the CIP committee (or staff) to accomplish the following:

- make sure department heads are aware that capital requests first go to the CIP committee, not the finance committee. The finance committee should not consider a capital item unless it has been submitted to the CIP committee first;
- reject any operating budget request that meets the definition of a capital project item, as defined in the town's criteria for capital expenses. These requests should be sent back to the department, with instructions to send it to the CIP committee and
- focus on the long-range planning efforts of the town and emphasize the importance of the CIP process and committee in that effort.

This chapter was prepared by Maureen G. Valente and updated by Patrick Lawlor.


Chapter 12: Borrowing

Introduction

Municipalities seek to borrow funds for two general purposes identified by the need and term of the borrowing, i.e. short and long term:

- **short-term basis –** notes are issued for one year or less to meet interim cash requirements prior to the receipt of funds from property taxes, state grants, federal grants or the proceeds of a bond sale and
- **long-term basis –** bonds are issued on a permanent basis to fund capital improvements or for other purposes allowed by statute.

The purpose, length to maturity, debt limits and procedures for the issuance of municipal debt, for both short and long term, are tightly regulated by Chapter 44 M.G.L., and other statutes such as those regulating school buildings, community preservation, urban renewal and certain economic development. In general, a town borrows by issuing securities (notes or bonds) in exchange for the funds received. The securities must be signed by the treasurer as well as the select board, and are a legal commitment on the part of the town to pay the purchaser of the securities a specified sum of money plus interest on a certain date. The process of issuing debt can be quick and easy or long and time consuming, depending upon the amount being borrowed, the time period over which the debt will be repaid and the type of issuance, i.e. short or long term

Short Term Borrowing

Notes are issued for four purposes:

1. **Revenue Anticipation Notes (RANs)** are issued in anticipation of the collection of local revenue, primarily property taxes. This debt is authorized by Chapter 44 s 4 M.G.L. and is initiated by the town treasurer with the approval of the select board. The town must have a cash flow that demonstrates a need for the borrowing. No action is required by the finance committee or town meeting.
2. **State Aid Anticipation Notes (SAANs)** are issued in anticipation of the receipt of a state grant. This debt is authorized by Chapter 44 s 6A M.G.L. and is initiated by the town treasurer with the approval of the select board. The town must have a state grant indicating the state's financial commitment. No action is required by either the finance committee or town meeting.
3. **Federal Aid Anticipation Notes (FAANs)** are issued in anticipation of the receipt of a federal grant. This debt is authorized by Chapter 74 of the Acts of 1945. The borrowing is initiated by the treasurer with the approval of the select board and the State Municipal Finance Oversight Board. The municipality must have a federal grant agreement indicating the federal government's financial commitment. No action by the finance committee or town meeting is required.
4. **Bond Anticipation Notes (BANs)** are issued in anticipation of the receipt of proceeds from the sale of bonds by the town. This debt is authorized by Chapter 44 s 17 M.G.L. and a loan authorization of the town meeting. The borrowing is initiated by the treasurer with the approval of the select board after all legal requirements have been met. Action by the finance committee and town meeting is required in the authorization process.

Long Term Borrowing

A town authorizes the issuance of debt for a variety of capital and some non-capital purposes as provided by statute. Municipalities borrow and repay the debt over a number of years in order to finance capital projects they could not afford to pay from their operating budget. In addition, the argument can be made that people who enjoy the use of a major facility in the future should bear some of the cost burden. Debt, in the form of loan authorizations, must be authorized by a two-thirds vote of the town meeting. Details of the authorization and issuance process will be discussed more fully below.

Participants in the Process

The key players in this process include:

- town treasurer;
- other municipal officials;
- bond counsel;
- financial advisor;
- underwriter;
- Massachusetts Department of Revenue, Division of Local Services;
- credit rating agencies.

Town Treasurer

This municipal official has the statutory responsibility, with the approval of the select board, for the issuance of the town's debt. S/he also has responsibility for the investment of borrowed funds and the payment of debt service. It is critical, therefore, that the treasurer be included in discussions of debt policy from the very beginning of the process.

Other Municipal Officials

Other officials, including the finance committee, select board, town accountant and town administrator, need to be involved in the planning and authorization process. This is especially important in presenting the loan authorization to town meeting and planning the repayment of the projected debt service. In addition, their input is needed when presentations are made to the credit rating agencies.

Bond Counsel

A law firm with expertise in municipal law and bonding is referred to as bond counsel. These attorneys will guide the town through the legal process of issuing debt and issue a legal opinion to the purchasers of the securities on their legality and tax exempt status.

Financial Advisor

A financial institution with expertise in municipal finance, municipal borrowing and the municipal securities market is called a financial advisor. These advisors will guide the town through the planning, authorization and debt issuance.

Underwriter

An underwriter is a bank or securities firm that purchases the town's securities with the intent of reselling them to investors. Some banks also purchase municipal securities with the intent of holding them in their own portfolio.

Massachusetts Department of Revenue Division of Local Services (DLS)

This department of the Commonwealth is responsible for regulating and providing technical assistance to local governments. Additionally, the DLS Bureau of Accounts, through its State House Loan Program, provides a certification service for the issuance of notes and small amounts of bonds. This program has been in existence since 1910 and provides a very cost-effective process for the issuance of debt. It does have limitations and its use must be examined with each sale. DLS has a municipal data bank that can be accessed in a variety of ways and is very useful in analyzing the town's economic and financial condition.

Credit Rating Agencies

These firms rate the creditworthiness of a municipality which significantly impacts the interest rate on a town's securities. With the exception of small bond and note sales issued through the state's Bureau of Accounts, it is necessary for a town to apply for a credit rating on bond issues and on note issues over a certain size.

There are several rating agencies, and they, like other vendors, charge a fee for their services to the town. A good credit rating depends on a variety of factors, some of which can be achieved by good management at the local level. Most rating agencies use four factors to determine credit ranking:

- **debt factors:** How much debt does the town have and how quickly is the debt retired? What are the future borrowing plans? What is the unfunded pension and health insurance liability for the town's retired employees? Is there a capital plan?
- **economic factors:** What are the income and wealth characteristics of the community? Is there much commercial/industrial diversity? How susceptible

is the town to regional and national economic changes? What is its capacity for growth?

- **administrative factors:** What is the town's management capacity? What is its political environment? How much capital and long term planning is being done? Are there fiscal policies and are they followed?
- **financial factors:** What is the rate of tax collection? How successfully has the town avoided short-term revenue borrowing? Are there adequate reserves? How diversified is the town's revenue base? What are its operating results? (For more detail see Appendix E.)

Debt Planning

In terms of debt planning, there are three areas a town needs to consider. The first, and most critical, is determining how the town will pay for the resulting debt service; the second is gaining town meeting approval and thus acquiring the authority to borrow; and the third is planning for issuance. The project approval process requires the community to pass and approve the project on its merits and need, and the ability of the community to afford the resulting debt service. While the treasurer is responsible for executing the debt issuance of the approved project and should be part of the approval process from conception, the planning of major projects should be a joint project of all appropriate officials from beginning to end.

Ability to Pay

Communities must review their ability to add or absorb debt obligations. The demographics, economy and Proposition 2½ can have a significant impact on the response to new debt. As stated in Chapter 11, the prioritizing of capital projects will assist in overall debt planning.

In most towns there will be three options to absorb the debt service of a significant project.

These include:

- absorbing the debt service within the current operating budget;
- supporting the debt service from designated revenues such as water and sewer and;
- excluding the debt service from the limits of Proposition 2½.

Absorbing the Debt Service Within the Budget

Absorbing the debt service in the operating budget involves multi-year planning and the integration of the new debt service in the budget prepared for its absorption. This usually centers around the current debt service budget, which under most circumstances declines each year. With careful planning the new debt service can be initiated as old debt service is being retired. Planners need to be sure that they are not counting on revenue streams that will end with the debt service such as state school building assistance, debt exclusion revenue or special revenue from water and sewer.

Designated Revenues

This option is available in very limited situations where the debt service of a capital project can be supported by departmental revenues. This occurs most commonly for water and sewer projects, transfer stations and improvements that can be paid from betterment assessments or funds raised under the Community Preservation Act. Towns must first make the determination that fee rather than tax revenue is the most appropriate vehicle for payment, and that the rate setting authority will set the rates to cover the debt service fully. Bonds will still be general obligation debt of the town, for this is the least expensive financing vehicle; however, the revenue to cover the debt service will come from the rate payer rather than the taxpayer.

An additional option involves state or federal assistance in the form of grants for specified projects. The most common form is school building assistance for the construction or renovation of school buildings. (See State School Building Assistance discussed below.) The state also has reimbursement programs for library projects, Clean Water Trust for sewer, water and some landfill projects (discussed below) and the Federal Rural Development Agency, formerly known as the Farmers Home Loan program.

Proposition 2½ Debt Exclusions

If the town cannot afford to absorb the debt service within its operating budget and fee revenue is either not available or not appropriate, the only available option is to seek voter approval for a debt exclusion for a given project. This option is discussed more fully in Chapter 6. If the voters approve an exclusion, the debt service, both long and short term, is excluded from the property tax limits of the town in the years the debt service is due. When the debt for the project is retired, the exclusion is eliminated.

Controlling Debt Position

Every municipality must be diligent in controlling its debt position. The impact of unplanned debt service on town budgets can be severe. Even with a Proposition 2½ debt exclusion, the impact of putting substantial debt onto the tax rate can make or break the willingness of a community to pay for future projects. Therefore, as part of the capital planning process, it is critical to develop a policy or guidelines determining the issuance, timing and tax impact of current and future debt. These guidelines should be developed in concert with the treasurer, financial advisor, select board, finance committee, town administrator and capital planning committee.

Controlling the debt position does not exclude a viable project from approval, but it controls the financial impact of that project on the taxpayer. It forces the community to address and monitor the impact of rulings by state and federal agencies, town meeting and the issuance practices of overlapping districts (i.e., regional high school, counties, water/sewer districts, etc.) and brings them into the overall planning process.

Where Does A Project Fit?

The capital planning document may include elements that require some debt be excluded from Proposition 2 1/2, or funded within the levy limit. Some communities place all capital projects over $1 million on the ballot for a Proposition 2 1/2 exclusion because it removes that cost from the general operating budget. Some fund a base level of capital within the general operating budget. Others set an annual limit within the general operating budget of how much will be borrowed annually.

Careful financial and strategic planning processes must be maintained to ensure that communities can continue to sustain the approved debt level into the future.

Authorization Process

Borrowing for long term capital projects is authorized by a two-thirds vote of town meeting. The project must be described in a warrant article, and the article should state that borrowing is at least an option for the financing of the project. The motion voted upon by town meeting authorizing the borrowing must state a sum of money, authorize said sum to be raised by borrowing, and pass the authorization, either by a declared unanimous vote or by a counted two-thirds vote. Legislation allows a declared 2/3 vote if certain actions are taken previously to allow such votes. These actions include a town bylaw or a vote of each town meeting at its beginning. It is very important that bond counsel draft, or at least review, the warrant article and motion before action is taken.

Procedures for Borrowing

Once town meeting has authorized the borrowing and dissolved, the treasurer can proceed to satisfy legal requirements. These will be listed in a requirement letter from bond counsel. Most of the requirements involve certifications from the town clerk that all state and local statutes have been complied with and proper notice has been given to all appropriate parties in connection with the bond authorization. Debt limits need to be met, and often approvals by various state agencies are needed. Once all of these requirements are met, the town may proceed to borrow.

The actual borrowing depends on the need for a given project and the ability of the town to absorb the debt service. The issuance of short-term debt is quick and requires only the payment of interest for up to two years. Long-term debt requires the first payment of principal in the next fiscal year, but locks in interest rates for the life of the loan. The exact timing and combination of financing vehicles requires the cooperation of the many officials and advisors mentioned earlier in this chapter.

Other Issues for Borrowing

Municipal borrowing has become a more complex topic as federal regulations have increased and new financing vehicles have become available. The next sections will touch upon a few of these.

Competitive Versus Negotiated Bond Sales

Towns can sell their bonds by either a competitive or negotiated sale. With a competitive sale, the issuer's financial advisor assists the issuer in structuring the issue, preparing and distributing a disclosure statement, obtaining a bond rating and advertising the sale. On the day of the sale, each competing underwriter submits a bid on the issue and the bonds are awarded to the underwriter (usually an underwriting syndicate comprised of several firms) that bids the lowest "true interest cost" on the issue. The advantages of a competitive sale are that the process is open to all underwriters, avoids any potential charges of favoritism in the choice of underwriters and ensures that the town will get a number of bids. Most towns will get the lowest possible interest rate on their bonds by selling competitively.

There are certain special circumstances, however, where a negotiated sale can produce the lowest cost for the issuer. With a negotiated sale, there is no bidding by underwriters for the issue. Instead, the issuer selects an underwriter(s) either by an RFP process or based on a pre-existing relationship. The underwriter works with the Town's financial advisor leading up to the sale, communicates with potential buyers of the bonds during an intensive "pre-sale" activity period and, based on the pre-sale activity, determines the appropriate pricing for the issue. The Town's financial advisor reviews the underwriter's pricing of the issue to ensure the town receives a good offer. The town's financial advisor is not allowed to also serve as underwriter on the bonds.

Negotiated issues are most appropriate in the following situations:

- if market conditions are exceptionally volatile or disrupted for any reason;
- for complex refunding issues where specific needs and results must be met, and where the restructuring demands of the issue could take longer and extend beyond the standard competitive market expectation for an award.
- for issuers with credit problems and a low bond rating, where the underwriter must explain the credit in detail to potential investors; and
- for new or very small issuers that are unknown in the debt markets.

These conditions generally require a greater degree of pre-sale activity and communication with investors than perhaps can be achieved with a competitive sale. In general, most Massachusetts towns issue bonds and notes by competitive sale.

State School Building Assistance

In July of 2004, the state legislature passed and the Governor signed a major redrafting of the School Building Assistance Program, creating a new Massachusetts School Building Authority (MSBA). This is an independent public entity under the control of a seven member Board. The State Treasurer serves as chairman of the Board. While most of the State's priority setting standards are similar to that under the prior legislation, there are significant differences in reimbursement rates, application procedures and financing, which should be understood by every city, town and school district. The new statute divides projects into three general categories during the transition process.

First, all cities, towns and school districts that are currently receiving reimbursements will continue to receive them as previously scheduled. There will be no reduction in amounts, except those caused by the final state audit of the project and those that have been refunded where savings are shared pro rata with the MSBA. This is the same as the prior law and regulations.

Second, any remaining school projects that were on the 2004 Priority lists were grandfathered. They are being funded at the same percentage reimbursement rate as previously listed.

The third group consists of municipalities that had not submitted their projects to the State prior to the new legislation taking effect. For this group, there was a moratorium in place until July 1, 2007. On July 1, 2006, the Board overseeing the program published new regulations and standards for new school projects. After July 1, 2007, municipalities applied for State grants for their school projects. The Board considered all the new applications, ranked them using previously agreed upon standards, and approved the number of projects within their financial capability. The budget for the new School Building Authority is "off budget" and eventually based on the revenues from one cent of the State sales tax. All other projects were rejected and must reapply the next year. There is no priority list. There is no guarantee when or if a particular school project will be approved. Thus any municipality will be taking a significant risk if it starts a project before a grant is approved. The grant will be paid as construction proceeds, and the municipality borrows only its own share of the project. For bonding purposes however, the municipality must authorize the full amount of project costs to be reduced by the percentage of State reimbursement. There is specific language required by the MSBA to be used to authorize the feasibility stage and the construction stage of the project and the issuer should obtain this language from bond counsel.

The school building construction program is spelled out in Chapter 70B of the Massachusetts General Laws. This provides the legislative support for the School Building Authority to receive applications, determine eligibility, rank, and approve the grants to cities, towns and districts to reimburse them for their school building costs. The purpose of the program is "to promote thoughtful planning and construction of school facility space in order to insure safe and adequate plant facilities for the public schools, and to assist towns in meeting the cost thereof."

The Authority has been working to review statutes and regulations including school building size and cost standards, reimbursement rates and a wide range of other issues. The legislation required that reimbursement rates for all new (post July 1, 2007) projects be reduced by 10 percent from the predecessor program. Thus the reimbursements went from the 50-90 percent range to 40-80 percent.

Towns should proceed carefully with the plans for new school projects and should review the regulations on the Authority's section of the State Treasurer's Web site (www.mass.gov/MSBA).

Clean Water Trust (formerly Massachusetts Water Pollution Abatement Trust)

Towns needing to finance sewer, water, and some landfill projects may find it advantageous to issue bonds through the Massachusetts Clean Water Trust. The Trust was created under Ch. 275 of the Acts of 1989 to administer the Commonwealth's water pollution abatement revolving fund program. The Trust is governed by a three-member board of trustees including the state treasurer, the secretary of the Executive Office of Administration and Finance and the commissioner of the Commonwealth's Department of Environmental Protection.

As implemented by the Trust, the revolving fund program incorporates a federal program that capitalizes the Trust and a state program that provides subsidies to local communities. The Trust issues bonds whose proceeds are used to make loans to communities with approved projects. Towns that are approved for borrowing from the trust must enter into a loan agreement with the Trust which obligates towns to pay the principal and interest on the Trust's loans to the town. Towns are also required to deliver their own bonds to the Trust, as evidence of the borrower's obligation contained in the loan agreement.

Pursuant to the act creating the Trust, projects funded under the revolving fund program are eligible for varying levels of financial assistance in the form of loan subsidies. The exact amount of the subsidy depends on certain characteristics of the community. The percentage level of the subsidy is set by the state legislature. As a result of the subsidy, most communities will find it advantageous to issue eligible bonds through the Trust rather than sell bonds on their own. A town's financial advisor can provide additional information on the program.

Betterments and Special Assessments

A betterment or special assessment is a compulsory charge levied against specific properties in an effort to defray all or part of the cost of a public improvement that primarily benefits certain properties. Betterments generally refer to the construction of streets, public parks and other public improvements where the taking of land and the payment of damages are required. Special assessments usually apply to the construction and maintenance of sewers, drains, sidewalks and water extensions. The purpose of betterments and special assessments is to charge those property owners who receive special benefits from a public improvement beyond the general benefits received by the community as a whole. Betterments and special assessments are not considered taxes, so are not included within the limitations of Proposition 2 ½.

A typical form of betterment or special assessment financing of capital improvements would have a town issue bonds to pay for the improvement and levy a betterment or assessment against the properties benefiting from the project to offset all or part of the annual debt service cost. Massachusetts General Laws prescribe the procedures and limits on betterments and special assessments. For example, for sidewalks, special assessments upon abutting properties are limited to 50 percent of the cost (Chapter 83 s.26 M.G.L.). In general, town policies and state statutes will determine the percentage of the cost of an improvement that can be levied against a property owner and the percentage of the cost borne by the town. Legal authority for special assessments and betterments for Massachusetts towns can be found in Ch. 80, 83, 80A and 40.

Refunding of Existing Debt

During periods when interest rates decline, a town may have an opportunity to save money by refunding some or all of its outstanding debt. The refunding process involves the issuance of refunding bonds and is analogous to refinancing a home mortgage to get lower rates. New debt (refunding bonds) is issued and the proceeds are used to retire the outstanding higher interest (refunded bonds) debt. Savings result from the annual debt service on the new bonds being less than the previous debt service.

Refunding is generally classified as either current or advance. With a current refunding, proceeds of the refunding bonds are used to retire outstanding bonds on the call date. The overlap between the settlement of refunding bonds and the call of existing bonds must be 90 days or less, and by law there must be a present value savings from the financing.

Advance refunding is used when towns want to issue refunding bonds because of low interest rates, but the first date on which the existing bonds are repaid (called) is more than 90 days away. Proceeds of an advance refunding bond issue are typically held by an escrow agent, who invests the proceeds in an escrow account whose interest earnings and principal are sufficient to be used to pay interest on the refunded bonds and to call the refunded bonds on the call date.

Certain conditions must be met for a successful advance refunding including the following: the existing bonds must be callable; strict federal regulations must be followed regarding the investment of the refunding bond proceeds; and the present value savings should be large enough to make the issue worthwhile. A town's financial advisor can perform the analysis to determine the financial feasibility of a refunding.

Federal tax changes enacted in the Tax Cuts and Jobs Act of 2017 preclude the ability to advance refund debt on a tax exempt basis and therefore advance refundings are currently limited to taxable refundings only, with the same required state law that they must produce a present value savings.

Federal Tax Reform

The Tax Reform Act of 1986, as amended, has had a significant impact on municipal debt issuance. First, it strengthened the distinction between governmental use bonds — bonds used for schools, roads, public buildings, etc. — and private activity bonds — bonds issued for projects that benefit only certain parties. For most towns issuing bonds, these changes are not significant. However, in cases where the facility being financed is leased to or is operated by a private company under a management contract (for example, a civic center or golf course), there may be private activity bond questions. Bond counsel should be consulted in these situations.

The second and most significant impact of tax reform is the limitations it places on the ability of an issuer to earn permissible arbitrage on borrowed funds. Prior to tax reform, treasurers took the proceeds of funds borrowed at tax exempt rates and invested them at higher taxable rates. The new law limits arbitrage by requiring that investment income from bond or note proceeds that is greater than the yield to investors on the issuer's borrowings be rebated to the federal government. If a community does not comply with this requirement, it risks losing the tax exempt status on its bonds and notes.

There are exemptions from these arbitrage limitations, and issuers should work closely with their financial advisor and bond counsel to plan their debt in a way that takes advantage of these exemptions. There are still opportunities to earn significant arbitrage if debt issuance is planned and structured appropriately.

The arbitrage regulations below need to be followed:

Unless debt is issued by a "small issuer", that is, an entity issuing $5 million or less of new money tax exempt debt in a calendar year, the proceeds shall be used within certain prescribed time frames, or be subject to fines and penalties as described above. This amount is increased to $15 million if at least $10 million is school related.

The following are the general rules and time frames for spending borrowed funds in order to avoid rebate. All funds must be used according to the following schedules, or sooner:

1. **CONSTRUCTION DEBT**
   First six months: 10%
   First year: 45%
   Eighteen months: 75%
   Two years: 95%
   Three years: 100%
2. **CAPITAL EXPENDITURE DEBT OTHER THAN CONSTRUCTION PROJECTS**
   First six months: 15%
   First year: 60%
   Eighteen months: 100%
3. **ALL OTHER MUNICIPAL PURPOSE DEBT**
   First six months: 100%

The third tax reform change is that it restricts certain buyers of tax exempt securities. The major provision disallows a federal tax deduction for financial institutions holding securities of municipalities who issue more than $10 million of original issue tax exempt debt (including leases) in a calendar year. Since financial institutions are major buyers of tax exempt bonds it may be economically beneficial for issuers to plan their debt issuance to stay within the limit. Current data suggest that so-called "bank-qualified" issues — i.e., bond or notes of issuers within the limit — sell in the market at 5 to 10 basis points (.05 percent - .10 percent) lower than non-qualified issues. A town's financial advisor can assist in formulating a debt issuance plan that takes maximum advantage of bank qualification.

Continuing Disclosure Regulations

Rule 15c 2-12 of the Securities and Exchange Act of 1934, as amended, provides that underwriters may not purchase or sell municipal securities of an issuer unless the issuer undertakes to provide continuing disclosure over the life of the bonds, subject to certain exemptions. In order to make their bonds acceptable to the market, issuers covenant at the time of delivery of the bonds to provide continuing disclosure. The obligation of the issuer under the covenant is to provide certain financial information and operating data no later than a specified period following the close of each fiscal year and to provide notices of the occurrence of certain enumerated events, if material, within 10 days of such event.

The continuing disclosure information is required to be uploaded to a national electronic platform repository referred to as EMMA (Electronic Municipal Market Access). Most municipalities in Massachusetts contract with their financial advisor to submit the required continuing disclosure information on their behalf.

Borrowing Purposes and Limits

Purposes for which a municipality may borrow and its debt limits are listed in Chapter 44 s 7,8 and 10 M.G.L. Questions should be posed to the town's financial advisor or bond counsel.

This chapter was prepared by Allan Tosti, Edward Dlott, Mary Ellen Normen Dunn, Donna A. Madden and Elizabeth Klepeis and updated by Cinder McNerney.

Chapter 13: Municipal Contracting and Procurement

Power to Contract

A town is authorized to make contracts for the exercise of its corporate powers in accordance with M.G.L. Chapter 40 s 4 which states:

A city or town may make contracts for the exercise of its corporate powers, on such terms and conditions as are authorized by the town meeting in a town, the town council in a town without a town meeting, the city council in a city with the approval of the mayor or the city council in a Plan D or Plan E city with the approval of the manager, or as otherwise authorized in accordance with a duly adopted charter. A city or town may not contract for any purpose, on any terms, or under any conditions inconsistent with any applicable provision of any general or special law.

The section above does not expressly authorize any particular town board or official to sign contracts. In general, the authorization to sign contracts must be set forth in either the town charter or bylaws, or established by town meeting vote. Some state statutes also grant the power to contract. For example, a municipal airport commission is authorized by M.G.L. Chapter 90 s 51I, to make contracts for airport improvements and to purchase supplies and materials. Another example is an historic district commission, which is authorized under M.G.L Chapter 40 s 8D, to "enter into contracts with individuals, organizations and institutions for services furthering the objectives of the commission's program."

Unless otherwise specified in the charter, bylaws, or town meeting vote, the actual terms and conditions of municipal contracts may be negotiated and agreed to by the board or official authorized to enter into a particular contract. Contracts subject to the Uniform Procurement Act may not exceed three years unless authorized by a majority vote of town meeting. See M.G.L Chapter 30B s 12(b). A charter or bylaw provision may also authorize contracts that are more than three years long.

If the town charter or bylaws do not authorize a particular board or committee to execute contracts, the following sample bylaw should be considered for adoption:

Unless otherwise provided by a vote of town meeting, the [town manager] [select board] [chief procurement officer designated pursuant to M.G.L. Chapter 30B] is authorized to enter into any contract for the exercise of the town's corporate powers, on such terms and conditions as are deemed appropriate.

Notwithstanding the foregoing, the [town manager] [select board] [chief procurement officer] shall not contract for any purpose, on any terms, or under any conditions inconsistent with any applicable provision of any general or special law.

Even if a contract has been properly authorized and executed, it must be supported by an adequate appropriation. If a contract is a multi-year contract and sufficient funds are not appropriated in a subsequent fiscal year, the town is required to cancel the contract. (See M.G.L. Chapter 30B, Section 12(d).) Construction contracts must include a certification of the auditor or accountant that sufficient funds have been appropriated to pay for the scope of work with additional certifications required for change orders. (See M.G.L. c. 44, s 31C.)

Intermunicipal Agreements

The statute governing inter municipal agreements, Chapter 40, s 4A, was amended in 2008 to remove legislative, or Town Meeting, approval required in order to execute such agreements in communities with a Town form of government. (See St. 2008, c. 188.) Instead, the authority to enter into such interlocal agreements is vested with the select board. As was the case before the 2008 Act, the statute requires authorization by the City Council with approval of the Mayor in those municipalities with a City form of government. Further, the Prudential Committee would approve of such agreements in Districts instead of at a district meeting as required previously. The amendment in no way changes the reporting requirements and financial safeguards that must be included in such agreements. These agreements may be for up to 25 years. For those inter municipal agreements involving the expenditure of funds for establishing supplementary education centers and innovative educational programs, the agreement and its termination must be authorized by the school committee.

Public Bidding of Municipal Contracts

There are four basic statutory schemes governing public bidding procedures for municipal contracts: M.G.L. c. 30B ("The Uniform Procurement Act"), M.G.L. c. 149, M.G.L. c. 30 s 39M, and M.G.L. c. 7C, §§ 44-58; the final three of which focus on public construction, public works, and construction design servicesThere are also several provisions of the General Laws that require competitive bidding for certain other types of contracts. For example, Chapter 40 s 22D, requires competitive bidding in the award of police-directed towing contracts and Chapter 45 s 5A, requires sealed proposals and awards to the highest responsible bidder for the lease of concession stands in town parks. Energy management contracts are governed by Chapter 25A and overseen by the Division of Capital Asset Management. Moreover, some towns continue to have charter or bylaw provisions establishing additional local public bidding requirements.

Uniform Procurement Act

M.G.L. Chapter 30B. This chapter governs the general bidding procedures for the procurement of all town supplies and services costing $10,000 or more, unless the particular contract is contained in the list of exemptions set forth in M.G.L. Chapter 30B s 1. This list of exemptions is extensive and includes, among other exemptions, intermunicipal agreements (see above), solid waste contracts, engineering agreements, insurance contracts and certain professional services agreements. Generally, if the cost of the supply or service is estimated to cost $10,000 or more but less than $50,000, the town may procure such supply or service by seeking three written quotes and awarding the contract to the person or business offering the lowest quotation. These quotes must be based upon the same written description of the supplies or services to be provided and provided to responding providers. If the cost is estimated to be less than $10,000, Chapter 30B only requires that "sound business practices"be utilized. In 2010, the Legislature added the following definition of "sound business practices"as: "ensuring receipt of favorable prices by periodically soliciting price lists or quotes." (See Chapter 188 of the Acts of 2010, Section 12). This means that, even for procurements valued at less than $10,000, municipalities should periodically gather information on going rates in order to be better-informed about market conditions. The Commonwealth updated Chapter 30B and Chapter 149 further in 2016 with the passage of "An Act Modernizing Municipal Finance and Government," which altered the thresholds for contract solicitation, bidding, and other requirements.

If the cost of the contract is estimated to be $50,000 or more, the town must issue a written invitation for bids ("IFB"), advertise the procurement in accordance with established procedures and award the contract to the lowest responsible and eligible bidder. (See M.G.L. Chapter 30B s 5.)

Alternatively, if the chief procurement officer determines that selection of the most advantageous offer requires a comparative judgment of other factors in addition to price, the town may issue a request for proposals ("RFP") in accordance with M.G.L. Ch. 30B s 6. This procedure requires the submission by each offer of a separately sealed price and non-price proposal. The non-price proposals are opened first and evaluated and ranked in accordance with published evaluation criteria. Thereafter, the price proposals are opened and the contract may be awarded to the person offering the most advantageous proposal taking into consideration price and the evaluation criteria. If the contract is awarded to a person other than the one offering the lowest price, the chief procurement officer must explain in writing the reasons for the award.

As part of its 2010 Municipal Relief Act (see Chapter

188 of the Acts of 2010), the Legislature amended Chapter 30B to authorize a municipality to access another municipality's competitively solicited contract for goods and supplies. Cities and towns now may freely cooperatively purchase goods (but not services) from competitively solicited contracts made by other municipalities within and outside each state, including, but not limited to, those contracts offered through regional and national cooperative purchasing organizations. (Codified as M.G.L. Chapter 30B Section 22.)

In addition, the Act amended Chapter 30B to authorize local procurement officials to use reverse auctions for the acquisition of supplies and services valued at $50,000 or more. (Codified as M.G.L. Chapter 30B Section 6A).

The Uniform Procurement Act also requires a public proposal process for the disposition or acquisition of interests in real property (i.e., fee simple interests, easements, or leasehold interests) if the value of the real property interest exceeds $35,000. The calculation of value includes the total potential value of any lease including options for an extension. In the case of acquisition of real estate, the town may forego a public proposal process if the town determines in writing that the real estate to be acquired has unique qualities or location.

Otherwise, whenever disposing of or acquiring real property, a town must advertise in accordance with the separate advertising procedures contained in M.G.L. Chapter 30B s16.

Table 13 summarizes the procurement procedures for purchase of supplies and services, for the disposal of surplus supplies and for the acquisition and disposal of interests in real property. This table is designed as a guide to the applicable procedures. It is not a comprehensive treatment of all statutory requirements. For detailed, step-by-step procedures and requirements, see M.G.L Chapter 30B s 1-19. Refer also to the Inspector General's "The Chapter 30B Manual: Procuring Supplies, Services and Real Property - Legal Requirements, Recommended Practices and Sources of Assistance, 8th Edition" manual, Municipal, County, District, and Local Authority Procurement of Supplies, Services and Real Property, updated in November of 2016, as well as "Designing and Constructing Public Facilities - Legal Requirements, Recommended Practices and Sources of Assistance 1st Edition" released September 2021.

Public Works Contracts ("Non-Building" or "Horizontal Construction")

Contracts for the construction, reconstruction, alteration, remodeling or repair of any public works project costing more than $10,000 must be awarded in accordance with the scope-of-work and/or sealed bidding procedures of M.G.L Chapter 30 s 39M. Generally, this provision requires the preparation of written specifications and either a solicitation ($10,000 - $50,000) or invitation for bids (more than $50,000), advertising of the contract in accordance with established procedures, and award of the contract to the lowest responsible and eligible bidder. Public works projects include municipal infrastructure projects involving "horizontal construction" such as sewer and water projects, highway and bridge projects, landfill closures and site work and to grading projects.

This statute also applies to the purchase of construction materials costing more than $10,000 and public building projects, as described in the designer selection section below, which are estimated to cost in excess of $50,000 but not more than $150,000. Construction materials may also be purchased under M.G.L. Chapter 30B s5, as a "supply."

Public Building Construction Contracts ("Building" or "Vertical Construction")

Contracts for the design and construction of public buildings are subject to the requirements of M.G.L. c. 149. This chapter requires that procurement be done through sound business practices (up to $10,000), solicitation of written responses ($10,000-$50,000), or solicitation of sealed bids (Over $50,000-$150,000). For projects over $10,000,000 (and for sub-bids of $25,000 and over), a prequalification process must be performed. Advertising, bonding, and DCAM certification requirements also apply.

If a contract involves the construction, reconstruction, installation, demolition, maintenance or repair of any building by the town estimated to cost in excess of $150,000, the contract must be awarded in compliance with the Filed Sub-Bid Law, M.G.L Chapter 149 ss 44A through 44M. This provision requires the preparation of written specifications and an invitation for bids, the separate solicitation of filed sub-bids and general bids if the estimate of the work will exceed $25,000 for each sub-trade, advertisement of the contract in accordance with established procedures and award of the contract to the lowest responsible and eligible bidder. A "building" is defined as any structure including four walls and a roof, but for the purposes of this statute, does not include sewer or water pumping stations that are newly constructed as part of a water or sewer project.

The table that follows summarizes the advertising and bidding requirements prescribed by M.G.L. Chapter 30 s 39M, and M.G.L. Chapter 149 s 44A through 44M, which apply to contracts for the construction, reconstruction, alteration, remodeling, demolition or repair of public works projects and public building projects, respectively. The table is offered as a guide only and is not a comprehensive treatment of all statutory requirements. For detailed procedures regarding the bidding and advertising requirements for public design and construction contracts, see the statutes identified above or consult with counsel. You may also refer to the Inspector General's manual entitled "Designing and Constructing Public Facilities," and October 2016 Update Reflecting Municipal Modernization Act changes, which can be found at the Inspector General's web site: www.mass.gov/ig.

Designer Selection Law

If a contract involves the procurement of design services for a public building project where the estimated cost of construction exceeds $300,000 or the design fee is $30,000 or more, the contract must be awarded in compliance with designer selection procedures established by the town and in accordance with M.G.L Chapter 7C s. 44-58 . Contracts for the design of buildings constructed in connection with water, sewer, and highway projects are exempt from this law.

Additional Resources

The Office of the Inspector General also maintains a helpful series of advisories on an array of specific types of contracts and procurement-adjacent issues on their website at: https://www.mass.gov/info-details/oig-guides-and-advisories

These advisories range from the general such as "Model Designer Selection Procedures" and a guide for "How to be an effective Member of a Public Board or Commission;" to the specific, such as advisories on banking services or energy services procurements.

Validity of Contracts Awarded in Violation of Law

If a contract has not been properly authorized in accordance with M.G.L. Chapter 40 s 4, has been awarded in violation of required public bidding procedures, or has been entered into without an adequate appropriation, the contract is void and unenforceable and the town is not permitted to make any payment on such an illegal contract, regardless of whether the vendor has actually provided supplies or services under the contract. (See M.G.L Chapter 30B s 17(b).)

This chapter was prepared by the law firm of Kopelman & Paige and updated by Juliana deHaan Rice in 2012 and Douglas W. Heim in 2014, 2017, and 2021.

DOLLAR AMOUNT OF CONTRACT	STATUTORY REFERENCE	PUBLISHED ADVERTISEMENT	PROCEDURE	AWARD TO	ADDITIONAL REQUIREMENTS OR EXCEPTIONS
Supplies & Services Less than $10,000	§4	None Required	Employ "Sound Business Practices" as defined by c. 30B §2.		Periodic solicitation of price lists or quotes. May use for purchases of up to $35,000 from Massachusetts farms
Supplies & Services $10,000-$50,000	§4	None Required	Written purchase description to solicit three (3) or more written quotations	Lowest quote for responsible bidder	Written contract required
Supplies & Services $50,000+ Invitation for Bids	§5	Posting, Newspaper, & Commbuys ($100,000 + also Goods and Services Bulletin)	Sealed Bids (IFB)	Lowest responsive and responsible bidder	Written contract required
Supplies & Services $50,000 + Request for Proposals	§6	Posting, Newspaper & Commbuys ($100,000 + also Goods and Services Bulletin)	Separately sealed price and non-price proposals (RFP)	Most advantageous based on non-price and price factor	Chief procurement officer – determination of need for non-price factors
Supplies & Services Reverse Auction	§6A		Operational Services Division Procedure		
Supplies & Procurement Services Sole Source $50,000 Maximum (Library & School Books, Software Maintenance, Utilities any Amount)	§7	None Required	Direct Negotiation	Sole Source	Sole Source determination by officer. Additional record keeping required. Utility sole source must come from a regulated industry provider.
Supplies & Services Emergency	§8	Goods and Services Bulletin (as soon as practicable)	Comply with c.30B procedures to extent possible (3 quotes recommended)	Lowest Price	Emergency declaration by procurement officer. Procure only to meet emergency needs.
Supplies & Services Disposal Up To $10,000	§15		Municipality may promulgate own procedures	Any value – may be given to tax-exempt charitable organization by majority (Town Meeting) vote	
Supplies & Services (Disposal) $10,000 +	§15	Same as §5 above for bid or auction	Sealed bids, auction, established markets	Highest Price	May be listed as trade-in in IFB/RFP. "Notice of Sale" and Non-Collusion requirements set forth in §§10 and 15. Special procedure for disposal to charity
Real Property More than $35,000 Acquisition or Disposal	§16	Newspaper (greater than 2500 sq. ft.) also Central Register	Sealed Proposal	Most Advantageous Offer (if not highest & prices, must publish explanation)	For disposition: declaration of availability. Determination of value; For acquisition: uniqueness determination; notice of award to Central Register **Does not apply to licenses or permits for use of real property and purchases or disposal governed by other statutes including tax title, acquisitions from the Commonwealth or by a Community Preservation Act Committee, or transfers between instrumentalities of the same Town.**

Table 13 Uniform Procurement Act Procedures (M.G.L. C.30B)

Chapter 14: Information Technology

How Much Should We Spend?

How much should we be spending on Information Technology(IT)? A 2020 study by *Computer Economics* shows an average IT spend of about 2.3% of annual budget for the Government/Nonprofit sector. If your community operates utilities, that adds another 1.3% of projected IT spending. Government is not known for setting a standard in IT spending and trails behind other sectors that operate around 4% or 5%. This provides a realistic baseline and adjustments can be made depending on how technology-forward the organization wishes to be.

IT budgets have been trending upwards since 2016 and will likely continue that direction in the future. Often an investment in technology realizes an efficiency and cost savings in another area of the organization, therefore, offsets may develop as part of an increase in IT spending. Adherence to new and existing compliance mandates will increase IT costs as cybersecurity takes a front seat for all organizations, and the importance of technology from a risk management perspective increases.

Does our business plan reflect the full potential of technology to improve our operations? This is an important question to ask when confronting IT spending. Government is a service organization and there are many examples of private corporations using technology to improve interactions with customers. We must consider leveraging similar tools to keep up with the expectation of service set by other industries.

Spending in your organization can be difficult to capture if not organized into a central technology budget. Costs may be distributed among budgets in a disorganized manner and it is in the finance committee's best interest to encourage the organization's management to accurately capture spending into a budget structure that is usable by the committee. Centralizing the technology budget will also often identify cost savings due to duplication of spending across the organization. How much do you spend on phone service annually? Software licensing? If we cannot answer questions like these about our spending on technology, it may be beneficial to embark on a project to centralize spending on IT purchases.

It is best to spend what your IT department can handle implementing for projects each year. If you have enough funding to overwhelm the department, then you should probably look at staffing levels. This is where specialized IT management comes in, an IT Director or CIO to determine where funding should be allocated and prioritization of resources. There are several options for an organization to obtain these services, from full time staff to virtual CIO services from a state contract vendor.

How Should We Spend Our IT Budget?

To answer the question of how to spend your IT budget, we must first understand where your organization stands in its strategic plan. Only then will we know where investment is required to maintain the functionality of systems within the Town.

A common approach to a strategic plan is to map out a five-year forecast and plan equipment refresh cycles along with staffing development, and budgeting. If your organization does not have a five-year strategic plan, or something similar, it may be worth bringing in some outside help in the form of consulting to focus on developing a comprehensive approach to the future. Existing IT Management should welcome the assistance; they are often consumed with daily operational tasks, making it difficult to strategize long term and a documented approach will give them backup with Boards and Committees when presenting budgets. This allows leaders to prepare accurate forecasts for operational and capital spending and address the growth of technology needs we see each year. If you use contracted IT support, they may offer strategic planning as part of their portfolio, and it would be worth taking advantage of that service to develop a long-term vision for IT in the organization.

Components of IT in an Organization

Technology, to break it down simply, can be thought of as infrastructure management, endpoint management, and service delivery. All three areas function smoothly in a mature IT Department with adequate funding, but many departments require development in one or more of these areas. Keep in mind the standard to observe a five-year refresh cycle on all IT equipment; consider this when budgeting for IT expenses. The development of a sustainable refresh cycle is very important to budgeting within the organization as a preventative cost measure. Equipment allowed to age and fail can result in significant unplanned capital expenses that can be avoided with accurate budget practices and the operational resources needed to implement maintenance properly.

Preventative maintenance is an important concept in technology – the more you do, the better off you will be in terms of budget predictability. Regular preventative maintenance keeps costs stable and operations running smooth. Consistent IT operation keeps productivity moving, efficiencies realized, and information recorded.

IT Management and cybersecurity are addressed further in this document as well; they are key aspects of the service delivery and infrastructure components, respectively. Management leads the strategic direction of technology in the organization and cybersecurity is a collection of mitigation measures to help manage the risk to our digital assets.

Components of IT Infrastructure Management

Information Technology infrastructure, for our purposes, includes cabling (copper and fiber optic), switching infrastructure, and datacenter infrastructure. Cybersecurity can also be considered part of infrastructure, but it is important enough to warrant its own section.

An organization's technology infrastructure must be up to date and running smoothly for any other aspects to function properly. Infrastructure, much like in other industries, is the base layer that all other services operate on top of. Proper investment in the refresh and maintenance of this equipment is vital to the efficiency and daily function of the entire organization.

Fiber optic cable has an expected lifespan of approximately 30 years; however, most technology infrastructure should be refreshed on a five-year cycle. Technology infrastructure is an area where finance committees may see large capital expenditures or lease-purchase agreements to fund significant investments.

Capital expenditures on datacenter equipment are being addressed in part by the shift to cloud technology, but most organizations still need to maintain on premise equipment. Spreading the cost of these investments over the lifespan of the equipment through a lease or other financing vehicle is common practice. Some organizations may choose to make the up-front capital purchases, depending on their financial structure and funding availability.

Switching infrastructure passes all the data, video, and voice traffic around the campus network your community likely operates. This component is expensive; however, return on investment (ROI) is quickly realized on distribution equipment because it allows for the elimination of service costs at multiple locations. Centralizing service for internet, datacenter, and telephone can provide significant cost savings over many years at a very high level of service.

An organization should have staff in place to support its infrastructure or develop an avenue through managed services to maintain this component of technology. An infrastructure team will perform design and implementation tasks important to maintaining that base layer of technology that keeps systems running smooth. The security and performance of your IT infrastructure requires constant monitoring and upkeep and the tools to do so should be within your organization's portfolio.

Endpoint Management

Connecting to the IT infrastructure are many devices known as endpoints. These include printers, computers, laptops, phones, and other peripherals. This equipment generally has a 3 to 5-year lifespan. Applications that run on endpoint devices must be configured, supported, and training should be provided to both support personnel and end users. Refresh of this equipment must be planned for and budgeted according to your organization's strategic plan to keep operations running smoothly. Out-of- date endpoints can push the cost of projects higher as equipment must be replaced to accommodate new software requirements.

An established lifecycle for all this equipment should be contained within your community's strategic plan. A concept of how to maintain, patch, and protect endpoint devices should be strategized, and endpoint detection and response should be part of your cyber incident response plan. Staffing to support endpoint devices is an important part of the strategic direction of Information Technology in your organization.

Service Delivery

Another important part of supporting technology in an organization is proper service delivery. The service desk or helpdesk is often the core of IT support service, if used effectively, for both internal IT departments and contracted services. Staffing is important, as both adequate and effective personnel are needed to service the technology support needs of an organization and respond to help requests in a timely manner. Inoperable technology results in loss of productivity throughout the organization and can have a snowball effect if not handled correctly.

Training is an important component of IT service delivery; users need to understand how to use the systems and applications they are expected to perform work with. IT support personnel must be somewhat familiar with the applications they are expected to support. An ongoing professional development program for both support staff and end user communities is vital to effective IT service delivery.

Customer service is a key aspect of good service delivery in an IT department and employees should be trained in best practices in this area. Technology supports the majority of internal customers in an organization and is part of the culture and atmosphere. Politeness and a good attitude are important even when encountering frustrated customers who have been inconvenienced by technology in some way.

Risk Management and Cybersecurity

Risk management is important to the finance committee and so is cybersecurity. Cybersecurity is a collection of risk mitigation strategies categorized into the areas of administrative controls, technical controls, and response. It is important that your organization determine a cyber incident response plan and prepare for the potential of a cybersecurity incident. Your community possesses private information on its employees and citizens and has an obligation to protect that data from theft or access by malicious actors. They most likely also process credit card transactions which come with certain compliance regulations.

The Massachusetts Cyber Center minimum baseline of security for municipalities targets four concepts:

Management of Information Technology

The finance committee needs to look long and hard at how the town plans to manage its investment in IT. Management is a key issue which has become more and more challenging as towns have expanded their use of IT.

This attention to the management of IT ought to occur in the same way that the finance committee should be analyzing how the town plans to staff and support an additional ambulance or provide for the operating and maintenance costs of a new (or renovated) school or any other asset.

The finance committee should be reviewing in detail several elements of successful management of IT before reaching any decisions on its recommendations to town meeting. These include, among other things:

- **Trained and Cybersecure Employees**
  - Communities can address this need through the MASS Community Compact Grant for Security Awareness Training
- **Improved Threat Sharing**
  - Numerous IT regional working groups exist throughout the state who regularly share threat and other useful information
  - Multi-State Information Sharing and Analysis Center (MS-ISAC) https://learn.cisecurity.org/ms-isac-registration
- **Cyber Incident Response Planning**
  - MASS Cyber Center incident response plan template https://masscybercenter.org/Response-Plan-Materials
  - Cybersecurity Insurance
- **Secure Technology Environment and Best Practices**
  - DNS Protection
  - Immutable Backups
  - Annual Vulnerability Testing
  - Firewalling
  - Multi-factor Authentication (MFA)
  - Logging
  - Traffic Analysis
  - Email Security – 80% of attacks occur through email
  - Endpoint Protection and Response

The above points are recommendations for a minimum baseline of security. Towns may choose to go further if it makes sense in their risk management strategy, although the technical controls suggested here are comprehensive. An increase in the value of our digital assets places increased importance on the risk mitigation techniques cybersecurity preparation and planning offers.

Building a cybersecurity incident response plan is a good way to approach developing a strong cybersecurity posture. The plan will force your organization to assess their strategy to mitigate the chances of and form a response to cyber threats like ransomware or data loss. Good coordination and organization internally will improve communication in the event of a cybersecurity incident and help to mitigate the damage. Communication with the media is likely and should be planned for. A playbook should be developed for the cyber incident response team to follow and be distributed to all members. Alternate methods of communication for all individuals on the team must be collected in case primary methods like email and office telephones are inoperable.

Technical controls for cybersecurity are expensive, but their value is difficult to cap if you never suffer a cybersecurity incident or data breach. The above list under secure technology environment and best practices mentions some of the things you can do with technology hardware and software to help mitigate risk. This list is fairly comprehensive but new technologies are emerging rapidly in the field of cybersecurity, and your IT department should have a professional development program in place to address the growing necessity cybersecurity measures take in our daily workflow.

Artificial intelligence is a new tool in the field of cybersecurity and many Towns may be taking advantage of some in their existing infrastructure. This presents an opportunity to automate and reduce the cost of certain security services like a Security Operations Center (SOC).

Management of Information Technology

The finance committee should understand how the Town plans to manage its investment in IT. Management is a key issue which has become more and more challenging as Towns have expanded their use of IT.

This attention to the management of IT ought to occur in the same way the finance committee should be analyzing how the Town plans to staff and support an additional ambulance or provide for the operating and maintenance costs of a new (or renovated) school, or any other asset.

The finance committee should be reviewing in detail several elements of successful management of IT before reaching any decisions on its recommendations to town meeting. These include, among other things:

- The town’s formal, written strategic plan for IT to guide its investment and management of these critical resources. This plan should address town-wide needs for IT on a comprehensive basis and be updated annually as part of the town's budgetary process. This annual update is important because of the rapid pace of change in IT and its increasing impact on almost every aspect of town government.

- The need for appropriate staffing and support of this function on a town-wide basis. Towns can only implement and support IT successfully to the extent that they provide appropriate staffing, whether by employees or contractors.
- Having a broadly based user-organization which takes a regular, active role in decisions about the direction and management of IT throughout the town.
- The need for the town to fund both end-user and technical staff training on an annual basis, including out-of-state travel to meetings of users' groups.
- The need to integrate requirements for the updating of IT with other elements of the town's capital improvement program (CIP) such as improvements to its water or sewer systems, or the procurement of fire apparatus or police cruisers. For example, the CIP should include funds to replace at least one-fifth of the town's PCs or printers each year.

Town-School Cooperation

Some towns in Massachusetts and their school districts have had one town-school IT organization for more than 30 years. With ever-increasing fiscal pressures, more and more towns and school districts are showing ever-greater openness to considering how they might benefit from this kind of local consolidation of IT services.

Establishing a single, unified organization, strategy and infrastructure for the town and school department can have several, important advantages for a municipality.

1. Achieving economies of scale can be relatively significant in various areas, from staffing and servers to implementation and support of applications.
2. Having standards for applications, hardware, and infrastructure throughout the town-school enterprise can make support of users and technologies both more cost-effective and provide higher quality.

Implementing town-school cooperation requires careful planning and coordination. Among other things, governance between the town and schools needs to be established on a formal, written basis between the select board and school committee with specific recognition of the ongoing role of the town's chief administrative officer and the superintendent of schools

Cloud Computing

Cloud computing has been used to provide information systems to towns for more than 15 years. In the cloud model, a company hosts the software that the town's staff utilizes, providing access to the town's applications to any person who has secure, Internet-based access. Cloud computing is commonly referred to as Software as a Service (SaaS).

The cloud model differs fundamentally from the traditional "turnkey" model where the town would buy a server, set up a computer room, license the software, establish a data network and hire or contract for staff to manage the system. The cloud model has several potential advantages. It may minimize the front-end cost to the town by eliminating or reducing the need to:

- Build and maintain a separate computer network;
- Buy a server to run the applications;
- Pay for the full cost of licenses for application and system software;
- Hire staff to support the system and applications;
- Construct and maintain a computer room; and
- Manage enterprise-level security.

It can provide higher quality software than the town might otherwise be able to afford, especially for smaller communities.

The town only pays for what it actually uses. Thus, the town has greater flexibility over time in how it provides access to the applications.

Payment for cloud services can be credited to the town's licensing of the application software, if and when the town should decide to bring the application in house.

Some costs remain the same. Key among these is the need to (1) provide ample training for all users both initially and on an on-going basis; and to (2) execute the conversion of files and records from the old system as accurately as possible.

Remember that cloud computing is a business. Towns need to apply the same rigorous practices in procurement, implementation, and support of cloud systems, beginning with the drafting of the Request for Proposals for cloud services, as it would do for its own in-house system.

There is a cost to the hands-off approach that cloud computing offers, and many times on premise equipment is cheaper if you already have the in-house staff to maintain it effectively. That said, the convenience offered by cloud technologies is sometimes worth the extra cost.

As remote work becomes more common, cloud technologies often offer an ease of use that is beneficial to mobile workers. Leveraging the use of web-based applications and mobile device apps provides an ease of use and availability for employees and the public.

Social Media

Social media has become an important tool for communication with the public. It is the expectation of citizens that we interact through social media on issues across the board. Where citizens in previous years could exchange information with their municipality only through a specific municipal application such as Tax Billing and Collection or Inspections and Permits, social media enables anyone in the public to provide information to the municipality on a completely ad hoc basis. This could range from such things as the picture of a pothole to a video of a crime or fire.

Likely, your organization has many social media accounts across numerous departments throughout the Town. This becomes a challenge for public record retention as social media posts can be deleted or expire and the Town may be legally obligated to retain those records. There are social media archival providers available that will retain these records, including deleted posts, and the cost for this should be incorporated into the IT budget as a risk management measure.

Social media often grew out of IT organically, but now typically lives with a communications professional or an organizational leadership of some type. Like the website, social media is cloud based and mostly about content management and updating information for the community. There is little technical support required on a regular basis; however, training and information may be required of the IT department as part of their service delivery.

Interlocal Cooperation in IT

Cooperating with other towns or regional planning agencies (RPAs) in your area may offer the same kinds of opportunities for enhancing cost-effectiveness and quality of IT services which were discussed previously in this chapter under Town-School Cooperation.

The Commonwealth of Massachusetts, through its Community Compact grant program, has provided substantial funds to towns and RPAs to stimulate interlocal cooperation in IT. This funding has generated a relatively significant amount of interlocal cooperation far beyond the scale of what had previously existed in the Commonwealth.

This is not a new concept. The most obvious example across the United States for decades has been voluntary regional arrangements for 9-1-1 centers or public safety answering points (PSAPs). More recently, some local governments have been implementing a single regional database for functions related to inspections and permits.

Each town which may be interested in this kind of interlocal cooperation should ask the following questions among others:

1. Do the towns generally get along well? Do they have a history of having cooperated previously in any function of town government?
2. What functions does each town see as potentially benefiting most from this kind of cooperation in IT? Do they have common needs related to public services or IT?
3. What kind of arrangement for governance can be established among the elected and appointed leadership of each of the participating towns?
4. How should costs be shared? Are there some costs

which are common to all of the participating towns and others which may be unique to one or more of the towns?

5. Have the towns considered in depth the technical and legal issues related to licensing of their application and system software or other goods or services? This can be an especially tricky and potentially costly area to navigate.
6. Who will be in charge operationally? Is there one person who will act as IT director for the towns? How will IT staff otherwise be consolidated?

Remote and Hybrid Meetings

Post COVID-19, the public meeting landscape has changed. As of this writing, certain provisions of the Open Meeting Law are still suspended by executive order, allowing for remote participation in public hearings by board members and the public. Many speculate a permanent revision to the Open Meeting Law that allows this type of participation to continue.

Towns may choose to pilot a hybrid meeting approach, where the meeting is held in present publicly, but remote participants are allowed to attend. This includes a separate screen, video, and audio feed which can complicate the recording or live broadcast by local cable access; therefore, coordination with this group is important. The Town should choose and standardize a platform for remote meetings so participants can get comfortable, and support staff can effectively troubleshoot and train meeting attendees.

Remote work is likely to continue as a central part of our daily work environment and IT departments need to incorporate the organization and coordination of remote meetings and support into their portfolio. The finance committee may work more directly with the IT department or support contractor when a remote or hybrid meeting scenario occurs. Technology must be working smoothly to ensure efficient and effective meetings that accomplish the goals intended.

External Resources

The last several years have seen the advent of important resources regarding municipal IT. These include information provided by the Massachusetts Municipal Association at www.mma.org, the Commonwealth of Massachusetts at www.mass.gov and others on the Internet.

Massachusetts Municipal Association
The Massachusetts Municipal Association (MMA), of which the ATFC is an affiliate organization, provides a wealth of information useful to finance committees on its web site, www.mma.org.

Mass.Gov
The Commonwealth of Massachusetts web portal is www.mass.gov.

Information specific to municipal government is found at https://www.mass.gov/orgs/office-of-municipal-and-school-technology. It brings together in one place access to a wide variety of information on technology grants and other resources for cities and towns.

Mass Cyber Center
https://masscybercenter.org/ contains a great deal of information on cybersecurity for cities and towns.

National Resources
The Multi State Information Sharing and Analysis Center
https://www.cisecurity.org/ms-isac/ is beneficial for threat sharing and several other free services including assistance with cybersecurity incident response.

Finance committees can use the web sites of leading national and international organizations to find much valuable information on budgeting and other financial policies and practices. The two organizations which are the leaders in this area are the **Government Finance Officers Association (GFOA)**, whose website is www.gfoa.org, and the **International City/County Management Association (ICMA)**, whose web site is www.icma.org.

Conclusion

There are many variables that affect how much a town should spend on information technology each year. Growth in an organization's use of technology has been a trend over the last several years and that may be reflected in the budget. Offsets often will occur as a technology investment works to realize an efficiency in another area of Government.

Infrastructure, endpoint support, and service delivery are key components of IT support; decision making on where to prioritize resources should be made by specialized IT management. Your organization should develop and implement a strategic plan to address equipment life cycles and staffing or contracting support and maintenance.

Cybersecurity has become increasingly important as the value of our digital assets grows. Risk management is a significant consideration of the finance committee and is at its core, what the administrative controls, technical controls, and response components of a digital security posture address.

As remote and hybrid work becomes more common, IT departments need to integrate support and training that accommodates these scenarios. Cloud computing provides opportunities for outreach and availability that may not have been possible for your organization in the past. Social media is now a required tool, and the public expects this type of interaction. Communities should invest in some type of archival software to preserve the public record of their content on social media.

Town, School, and interlocal engagement opportunities exist and offer a chance to realize economies of scale with purchasing and management. Check with your local regional planning agency to see if any interlocal opportunities exist within your area.

Numerous external resources exist in the areas of research, grant opportunities, and guidance in cybersecurity available to cities and towns. The Commonwealth of Massachusetts has created a Municipal and School Technology Department that provides resources to regional IT groups on a regular basis and there are free national membership programs.

This chapter was prepared and updated by Colby Cousens, IT Director for the Town of Danvers.

Chapter 15: Municipal Retirement Benefits

Introduction

All Massachusetts municipalities provide their employees with a pension benefit governed by Chapter 32 of the Massachusetts General Laws. Almost all municipalities provide some health and other benefits at retirement. These are commonly referred to as Other Post Employee Benefits (OPEBs). The OPEB liability consists of the government entity's share of health and other benefits costs for a retiree, plus dependents, plus the governmental entity's share of health insurance costs for eligible survivors. These plans typically represent a large portion of the municipality's annual budget and have substantially increased the liabilities shown on the balance sheet.

Pension

There are 104 Retirement Systems in Massachusetts – State, Teachers, 12 Counties, 6 Authorities and 84 municipalities. Those municipalities without their own retirement system belong to their county system on a cost-sharing basis. The State is responsible for the administration and funding of all teachers. The Public Employees Retirement Administration Commission (PERAC) is responsible for oversight of the other retirement systems. www.mass.gov/perac/

Chapter 32 of the M.G.L. dictates the benefits, contributions by the employee and employer, administration and investment options of the plans. They are defined benefit pension plans with mandatory contributions by the active participants. Each retirement system is administered by a five member retirement board. The members are the municipal auditor or accountant, an appointee of the select board or mayor, two members of the system elected by the membership, and an independent appointee by the other four members of the retirement board.

The assets of the system are invested in a qualified trust to be administered by the retirement board. The trust receives payments from the employers and employees, and makes payments to retirees and beneficiaries. Monies are invested in qualified securities at the direction of the retirement board and its investment consultant. The trust pays the expenses of the administration of the retirement system.

Full-time and part-time permanent employees are eligible for the plan from the first day of employment. Part-time employees must work a minimum number of hours to qualify as determined by the appropriate retirement board. Their contributions are co-mingled with all other funds. However, if the situation occurs where their contributions are returned to them, they will receive interest on the contributions at a designated rate. The rate will vary from year to year.

Besides retirement annuities, the plan also provides special benefits upon disability or death during active employment. Retirement pensions are based on years of service, pensionable compensation, age at retirement, veteran status and the employment classification. Employment classification (commonly called Group) is a designation whereby the employee may be eligible to retire with an enhanced benefit. General employees are designated Group 1 and have a normal retirement age of 65. Hazardous duty employees are Group 2 and have a normal retirement age of 60. Firemen and Police are designated Group 4 and have a normal retirement age of 55. For those employees hired after April 1, 2012, their normal retirement date is 2 years later than the ages shown above. A nominal benefit is added for those classified as a veteran.

Participants are not eligible for social security pension benefits. Therefore, neither the employee nor the municipality pays into the Social Security system for a pension benefit. Those hired after 1985 are eligible for medicare coverage, paid for by employee and employer contributions.

Either annually or bi-annually, an actuarial valuation is performed for the retirement system. The purpose of the valuation is to determine the health of the plan and how much needs to be included in the municipal budget to pay for the benefits. An actuarial valuation determines the value of all benefits accrued to date by the retirees, beneficiaries and actives based on a set of assumptions. This value is called the Accrued Liability. The actuarial valuation also determines the Normal Cost – the value of benefits to be earned in the coming year.

The pension budget is equal to the employer's portion of the Normal Cost, plus an amortization of the portion of the Accrued Liability not already covered by the assets held in the Trust. The amortization period is limited to 2040 for all liabilities.

For all systems, particularly county systems, all assets are available to pay benefits to all participating employers. Therefore, assets are not segregated between employers, and the allocation of the Pension budget to participating employers is based either on the total pensionable payroll of the employer or on an actuarial basis. The method of allocation is a decision made by the retirement board.

Starting with the fiscal year ending June 30, 2015, the determination of the funded status and annual cost of the plans is no longer the same. The Governmental Accounting Standards Board issued statements 67 & 68 covering the recording of the assets, liabilities, and costs of pension plans. These statements have de-linked accounting and funding requirements. Through the fiscal year ending June 30, 2014, a municipality's balance sheet has shown $0 for the pension liability. Starting with the fiscal year ending June 30, 2015, the entire Unfunded Accrued Liability has been shown on the balance sheet. See the Accounting section for more information on the accounting requirements.

For more information on the retirement systems, including yours, please visit the PERAC website.

Retiree Health and Other Benefit Plans

Almost all municipalities provide some form of Other Post Employment Benefits (OPEB) plan for their retired employees and beneficiaries. Subsidized healthcare and nominal life insurance are the most common. Some also subsidize dental insurance. Chapter 32B of the MGL governs health and other benefits. But there is no standard plan like Pension. Each municipality decides on its level of coverage, medical plans, plan provisions, eligibility and co-share of costs. In most municipalities, an employee who is 55 years old and has worked for 10 years for at least 20 hours per week is eligible for OPEB benefits. Chapter 32B does stipulate that the retirees shall not pay more than 50% of the cost of coverage. All employees who are eligible for Medicare must participate upon reaching their Medicare eligibility age. Unlike pensions, OPEB benefits for teachers are the responsibility of the municipality. This, combined with health care costs rising at a rate faster than revenues and a large number of municipal retirements, makes the OPEB liability a large and growing portion of local budgets.

Administration of the plan is generally handled by the human resources department. Eligibility for benefits is the same as for pension benefits, with the exception of some communities that have implemented continuous service policies. For the municipalities that have created a trust for their OPEB plan, no active employee contributions are required. There are municipalities outside of Massachusetts that do require contributions and there is no known prohibition from requiring active contributions in Massachusetts. Chapter 32B allows for communities to establish their own trust or invest in the Commonwealth's State Retiree Benefits Trust Fund.

Governmental Accounting Standards require a municipality to conduct an actuarial valuation to determine the value of the promise made to their retirees and beneficiaries. The actuarial valuation is performed in much the same way as the pension valuations. Both determine the Accrued Liability, Normal Cost and Unfunded Accrued Liability. These valuations determine the accounting expense to be included in the income statement and the liability to be included in the balance sheet. However, unlike pension, there is currently no requirement to fund the obligation.

Starting with the fiscal year ending June 30, 2017, the determination of the funded status and annual cost of the plans will no longer be the same as under the previous years. Under GASB Standards #43 and #45, a municipality's balance sheet has shown entries based on the difference between the OPEB expense and the amount funded. The new statement will require that the entire Unfunded Accrued Liability be shown on the balance sheet. See the Accounting section for more information on the new accounting requirements.

It is expected that including both the pension and OPEB unfunded liabilities on the balance sheets will reduce the net assets shown to values near $0 for most municipalities. Some are expected to show a negative net asset balance.

Public employees receive a unique retirement package in Massachusetts. Most private companies have replaced defined benefits retirement plans with defined contribution plans (that the employer may or may not contribute toward), and fewer than 10% of the private sector offers retiree health insurance. The challenge ahead for municipal officials is balancing attractive retirement packages to recruit and retain employees with the competing needs and fiscal realities facing every city and town.

This chapter was prepared by Daniel Sherman and Katie Sagarin McCue and updated by Daniel Sherman.

Appendix A: American Disabilities Act

Overview

State and local governments throughout the U.S. are required by the Americans with Disability Act (ADA) of 1990, P.L. 101-336, not to practice discrimination against any disabled individual. The stress is on the services, programs and activities offered by these governments. The Finance Committee should double check to ensure that all budget items are in conformity with the law.

As of January 26, 1993, state and local governments were required to evaluate current services, policies and practices to identify and modify those that are discriminatory. State and local governments that employ fifty or more people must maintain the evaluation, for public inspection, for three years and designate an employee responsible for handling complaints. As many public entities completed their self-evaluations more than twenty years ago, it should be noted that the Department of Justice expects periodic re-examination of policies and practices. In recent years, there has been substantial focus on public way maintenance and improvements to meet increasing standards, particularly with respect to sidewalks, curb ramps, and crosswalks. State and local governments must also provide notice regarding the rights and protections available to people with disabilities under the ADA.

Nondiscrimination

ADA sets the following nondiscrimination requirements for state and local government, based largely on § 504 of the Rehabilitation Act of 1973:

- It is illegal to refuse to allow a person to participate in a service, program, or activity simply because the person has a disability.
- Programs and services must be provided in an integrated setting unless separate programs are necessary to ensure equal access.
- State and local governments must eliminate unnecessary eligibility standards or rules that exclude or tend to screen out people with disabilities.
- State and local governments must make reasonable modifications to policies, practices and procedures to ensure equal access.
- Programs must be readily accessible to and usable by people with disabilities.
- It is illegal to place special charges on people with disabilities to cover the costs of ensuring nondiscrimination.

These requirements also apply if a town or any of its constituent units use a private facility for a governmental purpose, including a meeting or a public forum.

Accessibility

State and local programs, services and activities are to be readily accessible to and usable by people with disabilities. Programs must be made accessible unless doing so would fundamentally change the nature of the operation or cause undue financial or administrative burden. Extensive structural alterations of existing facilities are not required where alternative methods, such as the reassignment of services to accessible facilities, delivery of services at alternate accessible sites, redesign of equipment, or home visits provide adequate access. Structural barrier removal is required only where there is no other way to achieve access. Such changes must have been made no later than January 26, 1995.

Governments with fifty or more employees had to develop a Transition Plan by July 26, 1992 if structural changes were needed to achieve program accessibility. The Transition Plan must identify the physical barriers, describe the methods that will be used to make the official responsible for implementation. The plan must include a schedule for providing curb cuts on sidewalks for which the public entity has responsibility.

Communications

Effective communication, which may include the use of TTY/TDD, telephone relay services, sign language interpreters, large print materials, or other auxiliary aids and services, must be ensured for all applicants, beneficiaries, participants, and others. Telephone emergency services (such as Police, Fire, and Ambulance, including 911 service) must have TTY/TDD to ensure direct access. Accessible routes, facilities or equipment must be identified with appropriate accessible signage. These actions are required unless they would cause a fundamental alteration of the program or service or an undue financial or administrative burden.

New Construction and Alterations

State and local government facilities that are built or renovated after January 26, 1992 must be readily accessible to and usable by people with disabilities. Entities can use either the ADA Accessibility Guidelines or the Uniform Federal Accessibility Standards (UFAS). Accessible features must be adequately maintained.

This appendix was prepared by Christopher J. Dostoomian and updated by Douglas W. Heim.

Appendix B: Public Records

Introduction

The importance of records in public business has long been recognized by the legislature. The history of state records management services for local government in the Commonwealth may be traced back to 1884. The Public Records law is located in Chapter 66 of the Massachusetts General Laws, and the legal citation is G. L. c. 66.

On January 1, 2017, "An Act to Improve Public Records" became effective, providing the most comprehensive overhaul to public records laws in many years. Among the many alterations, additions and changes introduced by the Act, the following were highlighted by the Secretary of State:

Records Access Officers – Municipalities must designate one or more Records Access Officers ("RAO") responsible for coordinating municipal responses to public records requests and assisting both the public and custodians of records in identifying and producing timely responses and/or records.

Electronic Records – Records must now be provided in an electronic format to the extent available. Moreover, municipal RAOs are required to keep commonly requested records available online to the extent feasible.

Response Time – Municipalities must provide records within 10 business days of receipt of requests, petition the Supervisor of Records for an extension, or respond setting forth the basis of the denial of a request within such period. Mere acknowledgement of requests is no longer sufficient.

Appeals, Litigation & Attorney Fees – New provisions and related regulations have shortened the timeframe for the Supervisor of Public Records to resolve appeals to 10 business days. If record requestors prevail in a court action to seek records, they may also be entitled to attorney fees and costs.

Other new provisions include changes to allowable fees associated with obtaining and reproducing requested records.

Definition

"Public Records" means "'all books, papers, maps, photographs, recorded tapes, financial statements, statistical tabulations, or other documentary materials or data, regardless of physical form or characteristics, made or received by any officer or employee of any agency, executive office, department, board, commission, bureau, division or authority of the commonwealth, or of any political subdivision thereof, or of any authority established by the general court to serve a public purpose, or any person, corporation, association, partnership or other legal entity which receives or expends public funds for the payment or administration of pensions for any current or former employees of the commonwealth or any political subdivision as defined in section 1 of chapter 32, unless such materials or data" are exempt under M.G.L. c. 4, § 7 (26).

Finance Committee records, including all materials collected or presented during committee or subcommittee deliberations, are a matter of public record unless they fall into one of the exemption categories. Personal notes of members are not considered public unless they are distributed to other committee members and are therefore part of the deliberative process.

Open Meeting Law

Finance Committees should be aware that, under the 2009 amendments to the Open Meeting Law, a document that might be exempt from production under the Public Records Law could become public if it is "used" in an open session of a committee meeting. (See M.G.L. c. 30A, § 22(e).) It is not clear what it means to "use" a document at a public meeting, but certainly discussing a document in any detail or taking a vote concerning it would arguably be "using" it at the meeting. If the confidentiality of a document must be preserved but the committee must discuss the document to do its work, the discussion should take place in an executive session to avoid compromising the confidential nature of the document.

The Division of Open Government maintains Public Body Checklists, which may aid compliance with Open Meeting Law requirements. The checklist for executive session can be found at:

http://www.mass.gov/doc/public-body-checklist-for-entering-into-executive-session/download

Retention Period

For a guide on how long to retain certain public records, please refer to the Commonwealth of Massachusetts Municipal Records Retention Manual, Record Retention Schedule, updated October 24, 2016. This helpful manual is available on-line.

Exemptions

The statutory definition of "Public Records" contains twenty one exemptions which provide the basis for withholding records in whole or in part. They are as follows:

- specifically or by necessary implication exempted from disclosure by statute;
- related solely to internal personnel rules and practices of the government unit, provided however, that such records shall be withheld only to the extent that proper performance is necessary;
- personnel and medical files or information or any other materials or data related to a specifically named individual, the disclosure of which would may constitute an unwarranted invasion of personal privacy;
- interagency or intra-agency memoranda or letters relating to policy positions being developed by the agency, but this exemption does not include reasonably completed factual studies or reports;
- notebooks and other materials prepared by an employee which are personal and not maintained as part of the files of the agency, board, or commission;
- investigatory materials necessarily compiled out of the public view by law enforcement the disclosure of which would prejudice effective law enforcement that such disclosure would not be in the public interest;
- trade secrets or commercial or financial information voluntarily provided to an agency for use in developing policy and upon a promise of confidentiality, but this exemption does not include information required by law or as a condition of receiving a contract or other benefit;
- proposals and bids to enter into any contract or agreement until the time for the public opening of bids, and until the time for the receipt of bids or proposals has expired; and interagency communications made in connection with an evaluation process for reviewing bids or proposals, prior to a decision to enter into negotiations with or to award a contract to a particular person;
- appraisals of real property acquired or to be acquired until (1) a final agreement is entered into; or (2) any litigation relative to such appraisal has been terminated; or (3) the time within which to commence such litigation has expired;
- the names and addresses of any persons who have applied for or been issued a license to carry or possess firearms; and the names and addresses on sales or transfers of any firearms or ammunition;
- library circulation records;
- test questions and answers, scoring keys and sheets, and other examination data used to administer a licensing examination;
- contracts for hospital or related health care services between (1) any hospital, clinic or other health care facility operated by a unit of government and (2) a health maintenance organization, a non-profit hospital service corporation or medical service corporation, a health insurance corporation or any legal entity that is self insured and provides health

care benefits to employees;

- records which relate to the internal layout and structural elements, security measures, emergency preparedness, threat or vulnerability assessments, or any other record relating to the security or safety of persons or buildings, structures facilities utilities, transportation or other infrastructure located within the commonwealth, the disclosure of which is likely to jeopardize public safety;
- home address and home telephone number of an employee of judicial branch, an unelected employee of the general court, any state, municipal or authority, except under limited circumstances;
- name, phone number and address of a family member of a state employee contained in a record in the custody of a government agency which maintains records identifying persons as falling within the categories listed in the aforementioned section;
- adoption contact registry information;
- records of the state Office of the Child Advocate;
- trade secrets or other proprietary information in the possession of a governmental entity operating as an energy supplier;
- statements of financial interest filed by members of retirement boards;
- trade secrets or other proprietary information of the University of Massachusetts.

Access

State regulation, 950 CMR 32:00, governs public records access. Requests for public records may be oral or written, and may be made either in person or by mail. The requester should provide a reasonable description of the record and the custodian must comply as soon as is practicable and within 10 days. A custodian of public records may not request the reason for the public records request and shall not require proof of the requestor's identity before complying with the request.

Fees

The fees charged for public records are regulated by 950 CMR 32:06 except where fees for copies are prescribed by statute:

- photocopies up to 5 cents per page (8 x 11)
- computer printouts up to 5 cents per page
- for copies of public records not susceptible to ordinary means of reproduction, the actual cost incurred in providing a copy may be assessed
- Municipal responses to a public records requests requiring more than 2 hours of employee time to fulfill permit assessment of a fee commensurate with the time and hourly rate of the lowest paid employee with the skills necessary to search for, compile, segregate, redact or reproduce responsive records, but may not exceed $25 per hour unless approved by the Supervisor of Public Records.

Municipalities with populations of 20,000 people or fewer will be permitted to charge for the first 2 hours of employee time.

A custodian of public records is to provide a good faith estimate of the cost of producing the records.

Please note that there are no longer separate charges for Fire & Police reports, or computer printouts.

This summary was prepared by Jane Chew and updated by Juliana deHaan Rice in 2012 and Douglas W. Heim in 2014, 2017 and 2021.

APPENDIX C: Open Meetings and Executive Session

Open Meetings

The Open Meeting Law is based on the premise that the public is entitled to see the process of government and not simply its result. In general, the public and the news media have the right to attend all meetings. However, the law does provide ten specific exceptions to this rule that permit meeting behind closed doors, in "executive session," to discuss certain subjects. While the law does not limit what may be discussed or acted upon at any meeting, it does impose restrictions on the way in which meetings are called, conducted, and recorded. Any rules of procedure adopted must be in conformance with the Open Meeting Law.

The Open Meeting Law, M.G.L. c. 30A, Sections 18-25, is required reading for Finance Committee members. (The Attorney General has promulgated open-meeting regulations, see 940 CMR 29.00 et seq.)

First Things First: When is a meeting a meeting?

Basically, a meeting is any deliberation by a public body on a matter within its jurisdiction. A "deliberation" is any oral or written communication, including email, between or among a quorum of the public body on any public business within its jurisdiction, but does not include distribution of meeting agendas, scheduling information, or meeting materials, provided that no opinion of a member of the public body is expressed.

The following activities are not considered a meeting and therefore are exempt from the requirements of the open meeting law: (a) an on-site inspection of a project or program, (b) attendance by a quorum of a public body at a public or private gathering, (c) attendance by a quorum of a public body at a meeting of another public body nor does it include (d) attendance by quorum at Town Meeting. Keep in mind, however, that if a quorum of the committee engages in any of these activities (except for attendance at Town Meeting), it should not deliberate — or discuss public business within its jurisdiction — while doing so

What is a Public Body?

The term "public body" is used throughout the statute and these entities are subject to the Open Meeting Law requirements. A public body is any "multiple-member board, commission, committee and subcommittee within the executive or legislative branch or within any county, district, city, region or town, however created, elected, appointed or otherwise constituted, established to serve a public purpose…" The term also includes subcommittees that are created to advise or make recommendations to a public body.

Thus, a Town Finance Committee is a "public body" subject to the Open Meeting Law, as is a sub-committee of the Finance Committee.

Calling a meeting: Notice Requirements

The public body is responsible for filing a notice of the meeting with the Town Clerk at least forty-eight hours before a meeting is to take place, not including Saturdays, Sundays and legal holidays. Notice of the meeting, printed in "legible, easily understandable format" must include the date, time, and place, as well as a listing of topics that the chair of the public body "reasonably anticipates" will be discussed. Such notice must be "posted in a manner conspicuously visible to the public at all hours in or on the municipal building in which the clerk's office is located." The Attorney

General has authorized five alternative posting methods by regulation. (See 940 CMR 29.03(2)(b)). Each municipality must adopt one of these methods (unless postings in or on the municipal building housing the clerk's office are visible 24 hours a day) and notify the Attorney General in writing of the method chosen. That method must be used by all municipal boards and committees unless and until a different method is chosen and the Attorney General notified. (See 940 CMR 29.03(1)(c).)

In case of an emergency, defined as "a sudden, generally unexpected occurrence or set of circumstances demanding immediate action," an open meeting may be held even though notice was not posted in time. Some reasonable notice of an emergency meeting should still be posted as much in advance of the meeting as possible.

Recording and Addressing Meetings

Any person may make a video or audio recording of the open meeting of a public body so long as that person notifies the chair of the public body beforehand and the chair informs all in attendance at the beginning of the meeting that such a recording has been authorized. Furthermore, any person may transmit the meeting through any medium subject to reasonable requirements imposed by the chair.

While anyone may attend an open meeting of a public body, no one may address a meeting without first obtaining the permission of the chair. All persons attending must remain silent during the proceedings and if they do not, a warning shall be given by the chair. If the person continues to interrupt after the warning is given, the chair may remove the person using a constable or other officer.

Remote Participation at Meetings

As authorized by the Open Meeting Law, the Attorney General has promulgated regulations governing remote participation in open meetings. (See 940 CMR 29.10.) Before remote participation may be used by a municipality's boards and committees, it must be adopted by the select board (in towns) or by the mayor (in cities). Once adopted, remote participation may be used in the following circumstances: a quorum of the board and the chair of the meeting must be physically present in the meeting room; members may be absent by reason of personal illness, personal disability, emergency, military service, or geographic distance; participation must be through a method that allows all board members to be audible to one another; and all votes must be taken by roll call. At the commencement of the meeting, the chair must publicly explain the reason(s) for remote participation. At the time of publication, various proposals are being considered by the State Legislature to allow greater remote participation.

Reasons for Convening Executive Session

As previously mentioned, the law allows a public body to convene behind closed doors, or in "executive session," for a number of prescribed purposes. (See M.G.L. Chapter 30A, Section 21.) A public body may enter into "executive session" for the following ten (10) purposes:

1. To discuss the reputation, character, physical condition or mental health - rather than the professional competence - of an individual.
2. To consider the discipline or dismissal of, or to hear complaints or charges brought against a public officer, employee, staff member or individual.
3. To discuss strategy with respect to collective bargaining or litigation if an open meeting may have a detrimental effect on the government's bargaining or litigating position. Also, to conduct strategy sessions in preparation for negotiations with non-union personnel; to actually conduct collective bargaining and contract negotiations with non-union personnel.
4. To discuss the deployment of security personnel or devices, e.g., a "sting operation."
5. To investigate charges of criminal misconduct or to discuss the filing of criminal complaints.
6. To consider the purchase, exchange, taking, lease, or value of real property if such discussion may have a detrimental effect on the negotiating position of the governmental body.
7. To comply with the provisions of any general or special law or federal grant-in-aid requirements

(generally privacy).

8. To hold a preliminary screening (including interviews if they are part of the preliminary screening process) of candidates for employment if an open meeting would have a detrimental effect in obtaining qualified candidates.
9. To meet with a mediator regarding any litigation or decision.
10. To discuss trade secrets or confidential, competitively-sensitive or other proprietary information provided in the course of activities conducted by a governmental body as an energy supplier, municipal aggregator or in the course of activities conducted by a cooperative consisting of governmental entities.

Although the Massachusetts Supreme Judicial Court ("SJC") unequivocally held that the attorney-client privilege applies to public entities, including municipal boards and commissions, see Suffolk Construction Co. v. Division of Capital Asset Management, 449 Mass. 444 (2007), the Attorney General has taken the position that a public body may meet in executive session with its counsel only for one of the ten enumerated executive-session reasons. This tension may be resolved by a future court decision.

Procedure to Convene in Executive Session

In order to enter into executive session in the aforementioned circumstances, the law requires five (5) -- sometimes six (6) -- events that must take place:

1. The public body must convene in open session and valid notice must be provided for as described already;
2. A majority of members vote, by roll call, to enter into executive session;
3. Before doing so, the chair must state the purpose of entering into executive session (one of the ten purposes in the preceding section) as well as indicate the subjects that may be discussed without compromising the purpose for which the executive session was called;
4. The Chair must publicly announce whether an open session will reconvene at the conclusion of the executive session;
5. Accurate records of the session are maintained in accordance with the statute; AND
6. If the executive session is being called under Reasons 3, 6, or 8, the Chair must publicly declare that holding the discussion in an open session would be detrimental to the position of the public body.

Although committee members may discuss multiple topics in executive session, all reasons for the executive session must be stated on the record. It is not acceptable to go into executive session under one reason and then discuss a different matter, even if that matter might have warranted its own executive session.

The Division of Open Government authored a "Public Body Checklist for Entering Into Executive Session" to assist public bodies which may be found online at:

https://www.mass.gov/doc/public-body-checklist-for-entering-into-executive-session/download

Meeting Records

Section 22 of the statute sets forth those requirements as they relate to meeting minutes and retention of the same. Minutes must be maintained for both open and executive sessions and must include the date, time and place, members present or absent, the summary of discussions on each subject, list of exhibits used at the meetings and decisions made, including a record of all votes.

All exhibits shall be part of the official record, except materials used in a performance evaluation as to professional competence or in deliberations about employment or appointment. Keep in mind that discussing a confidential document in an open session can destroy its confidential status under Section 22 of the law. If the committee needs to discuss a confidential document that needs to remain so, it will have to be discussed in executive session (to comply with the law making the document confidential, Reason No. 7).

Minutes of meetings must be created and approved in a "timely manner," which absent good cause for delay is thirty (30) days or within the next three meetings, whichever is later. This is particularly important to keep in mind during summer sessions where boards may meet more infrequently. 940 CMR 29.11(2).

Minutes of open meeting sessions must also be made available upon request to any person within 10 days. Minutes of executive sessions may be withheld from disclosure "as long as publication may defeat the lawful purposes of the executive session…" At reasonable intervals, or within 30 days of a request, a public body shall review the minutes of executive sessions to determine if continued nondisclosure is warranted. Generally speaking, it is good practice to set aside two sessions per year to review executive session minutes appropriateness for public review.

Violations of the Open Meeting Law

As has been stated already, the Attorney General is vested with the sole authority to interpret and enforce the Open Meeting Law.

With reasonable cause, the Attorney General may conduct an investigation by requesting that information be voluntarily provided or, if not provided within 30 days, by taking testimony under oath and requiring that documents be produced.

At least 30 days prior to submission of the Attorney General, but within 30 days of the alleged violation, a complaint must be filed with the public body, providing it an opportunity to remedy the same. The public body shall notify the Attorney General of any remedial action taken within 14 days of receipt of the complaint. Upon receipt of a complaint, the Attorney General shall determine in a timely manner whether a violation of the open meeting law occurred.

If he/she so determines, the Attorney General may: (a) compel compliance, (b) compel attendance at training session, (c) nullify action taken at meeting, (d) impose a civil penalty upon the public body of up to $1,000 for each intentional violation, (e) compel materials to be made public, (f) reinstate a dismissed employee, or (g) prescribe other action. The Attorney General has recently defined "intentional violation" to include practices that continue after a court or the Attorney General has advised that the practice is illegal.

As existed previously, and as an alternate to the aforementioned procedure, the new law authorizes three or more voters and/or the Attorney General to sue to enforce the open meeting law. Under the new law, such a suit can be brought in Superior Court in the county in which the public body is located. The burden of proof will be on the public body to show by a preponderance of the evidence that the requirements of the law were satisfied. The remedies detailed above are available in such proceedings.

The law provides that the public body may defend itself from imposition of any penalty that, after full disclosure, it acted in good faith compliance with the advice of its legal counsel.

New State Open Meeting Agencies

Section 19 of the 2009 open meeting law established the Division of Open Government within the Attorney General's office to perform the duties imposed upon the AG by the Open Meeting Law. The Attorney General shall designate an assistant attorney general as the Director. The Attorney General shall provide educational materials and training to Public Bodies on the Open Meeting Law. Further, the AG is authorized to issue advisory opinions regarding any provision of the statute.

Secondly, this section of the law establishes a five-member Open Meeting Law Advisory Commission consisting of the two chairs of the Joint Committee on State Administration and Regulatory Oversight, the Attorney General, the president of the Massachusetts Municipal Association, and the president of the Massachusetts Newspaper Publishers Association. The commission is charged to review issues relative to the open meeting law and submit to the Attorney General recommendations for changes to the regulations, trainings, and educational initiatives relative to the open meeting law as it deems necessary and appropriate.

Certification Requirements

The Open Meeting Law requires that all persons serving on a public body certify, within two weeks of qualification for office, that they have received a copy of the law, the regulations promulgated pursuant thereto and educational materials prepared by the Attorney General's office. Such certification shall be maintained on file by the Town Clerk and serves as evidence that the person read and understands the open meeting law and the consequences for violating it.

This appendix was prepared by Matthew G. Feher and updated by Juliana deHaan Rice in 2012 and Douglas W. Heim in 2014, 2017 and 2021.

Appendix D: Conflict of Interest

Introduction

M.G.L. Chapter 268A, the conflict of interest statute, imposes ethical standards upon employees of state, county and municipal governments. Its provisions are applicable to all "municipal employees," whether paid or unpaid, elected or appointed, full-time, part-time or employed intermittently. The statute expressly exempts only elected Town Meeting and Charter commission members. Any member of a Finance Committee is a municipal employee under Chapter 268A. Violations of the conflict of interest law by municipal employees are punishable by a fine of up to $10,000 or imprisonment. It is important to get advice from your Town Counsel or the State Ethics Commission if you have any questions about the legality of particular conduct. Some Finance Committees may be designated "special municipal employees" by the select board. A special employee is unpaid or is paid for less than 800 hours per year. An office may also be so designated if the position specifically allows for private employment during normal working hours. A special municipal employee designation allows the employee to represent clients before Town boards (other than the one on which the employee serves) and relaxes the requirements for having financial interests in Town contracts. Prohibitions against actual and apparent conflicts of interest remain in force for special municipal employees.

In addition to the following summaries of featured provisions of c. 268A, the State Ethics Commission provides specific guidance for common issues facing finance committee members, which may be found online at:

https://www.mass.gov/service-details/municipal-finance-committee-members-explanation-of-the-conflict-of-interest-law

Prohibited Participation - Financial Interest

M.G.L. Chapter 268A, Section 19 prohibits any municipal employee (including "special employees") from participating as such an employee in any particular matter in which the employee, his immediate family members, business partners, private employers or organizations in which he serves as an officer, director, partner, or trustee, have a "financial interest." As with most provisions of Chapter 268A, this prohibition is broadly construed by the State Ethics Commission. "Participation" includes any deliberation, discussion or voting on municipal budgets or any other matter within Finance Committee jurisdiction.

If a departmental budget or any other matter in which a member has a prohibited financial interest comes before the committee, it is recommended that the member leave the room during the deliberation on that subject. (See Graham v. McGrail, 370 Mass. 133 (1976).) For example, if a member of a Finance Committee member's immediate family is employed in the assessors' office and the assessors' budget line item includes the salary of that family member, the Finance Committee member must not participate in any discussion of that budget item, nor may s/he be counted towards a quorum at that time. There are limited exemptions from Section 19. First, if the Finance Committee is an appointed position, a member may disclose all facts giving rise to the conflict of interest to his appointing authority prior to that matter coming before the committee. If the appointing authority makes a written determination that the financial interest involved is insubstantial and not likely to affect the integrity of the Finance Committee member's official actions, he may participate in the matter. This exemption may not be used to "cleanse" participation after the fact.

Another exemption applies "if the particular matter involves a determination of general policy and the interest of the municipal employee or members of his immediate family is shared with a substantial segment of the population of the municipality." The State Ethics Commission has determined that a "substantial segment of the population" is any number exceeding 10% of the residents of the town.

Multiple Office Holding and Financial Interests in Contracts with the Municipality

Section 20 of Chapter 268A M.G.L. generally prohibits a municipal employee from having a financial interest, directly or indirectly, in a contract made by an agency of the same city or town. This prohibition extends to holding more than one paid, appointed position, i.e. employment "contracts." Elected offices are not considered to be contracts with the town, even if they are compensated.

Section 20 is the most complex area of the conflict of interest statute, and its application is driven by the specific facts of a given situation. In general, however, it is difficult for a municipal employee to have a financial interest in a contract with the town or to hold two paid appointed positions. Special municipal employees may be eligible to do so, if they file a written disclosure of their financial interest with the Town Clerk. A special employee may have an interest in a contract with his own board or department if he also obtains a vote of the select board approving his exemption from Section 20. It is not a prohibited financial interest if you own less than 1% of the stock of a company that has a contract with the city or town.

Finance Committee members should also be aware that many towns and cities have by-laws or ordinances which limit or prohibit multiple office-holding. Section 20 does not prohibit a municipal employee in a town having a population of less than three thousand five hundred (3,500) from holding more than one appointed position with the town, provided that the select board approves an exemption from the aforementioned prohibition. The Town Counsel should be the first contact regarding any question on the application of Section 20. The next step is to bring the matter before the State Ethics Commission.

Acting on Behalf of Others

Chapter 268A, Section 17 generally prohibits a municipal employee from acting as agent or representative for anyone other than the town or city in connection with a matter involving that town or city. For example, a Finance Committee member may not appear before a municipal board on behalf of someone else. In addition, the member may not receive compensation from anyone other than the town in relation to a particular matter in which the town is a party or has a direct and substantial interest. Members may, however, appear before a town board on their own behalf.

Special municipal employees have a limited right to act as an agent or representative under Section 17, provided that (a) they have never personally participated in the matter as a municipal official, (b) the matter is not within their "official responsibility" and (c) the matter is not pending before their municipal agency. While a Finance Committee member may avoid participating in a prohibited financial interest by stepping down from the committee (see above as it relates to Section 19 of the statute), this lack of participation does not change the fact that a matter is within the Finance Committee's official responsibility for purposes of Section 17.

Section 18 of the statute contains restrictions that apply after a member of a Finance Committee leaves public office. The former "municipal employee" may never be paid by anyone other than the town in connection with a particular matter in which he/she participated while on the Finance Committee. For example, if the committee deliberated and recommended funding for a particular budget item, a former member may not be paid by any private person or organization in connection with a contract funded by that line item. There is also a one-year ban on that former member appearing personally before a municipal agency (other than on your own behalf) in connection with any particular matter that was under the committee's official responsibility, whether or not you participated in that matter.

Standards of Conduct

Chapter 268A, section 23 imposes additional standards of conduct on all municipal employees and special employees. No municipal employee may accept private paid employment in which the responsibilities of that employment are inherently incompatible with the responsibilities of his public office. There are also restrictions on accepting anything of "substantial value," defined as anything over $50.00. The State Ethics Commission has adopted extensive regulations on accepting items of substantial or insubstantial value, including what may be accepted in certain situations and when a written disclosure may be required. (See 930 CMR 5.00.) Also available on the Commission's website are various forms that may be used for making written disclosures. (See www.mass.gov/ethics.)

Public employees must fulfill the duties of their office objectively, and not use or attempt to use their position to (a) secure unwarranted privileges for themselves or others or (b) solicit or receive anything of "substantial value." (Section 23(b)(2)) The statute prohibits any municipal employee from accepting gifts or gratuity of "substantial value" (as well as any "bribes"). Employees are also prohibited from disclosing any confidential records or data acquired in the course of their official duties.

Section 23(b)(3) prohibits any action that would lead a "reasonable person" to conclude that there is an appearance of a conflict. This would include participation in any particular matter in which a Finance Committee member's judgment or motivation appears to be biased, whether or not such participation is barred by any other section of Chapter 268A. The member may protect himself from such an allegation, however, by disclosing in writing to his appointing authority the facts which could lead to such a conclusion.

Section 23 (b)(4) prohibits any municipal employee from presenting "a false or fraudulent claim to his/her employer for any payment or benefit of substantial value."

Administration and Enforcement

Chapter 268A is both interpreted and enforced by the State Ethics Commission.

If the State Ethics Commission determines a violation has occurred, it may pursue administrative enforcement against the municipal employee, which usually involves payment of a fine. The Commission may also refer a violation for criminal prosecution. The statute provides for fines or imprisonment. Certain violations may also be enforced by rescinding or cancelling actions taken by a municipal agency.

The Ethics Commission will provide opinions to a municipal employee, but will only offer such opinions prospectively - the employee should, therefore, contact the Commission prior to participating in any matter that could lead to a violation. The Commission will not provide an opinion about someone else's conduct. In addition, Chapter 268A, Section 22, entitles any municipal employee to obtain a written opinion from the Town Counsel or City Solicitor, if the request is made in writing, setting out all relevant facts. Copies of such opinions must be filed with the Town Clerk and with the Ethics Commission. The Ethics Commission has thirty days from receipt of an opinion to issue its own findings, either concurring or disagreeing with the opinion of the municipal lawyer.

Mandatory Education and Training Requirements

1. Summaries of the Conflict of Interest law: the law requires the Commission to publish on its website a summary of the conflict of interest law. Each city and town clerk will be required to provide a copy to all municipal employees "within 30 days of becoming such an employee, and on an annual basis thereafter…" Each current municipal employee must sign a written acknowledgement that they have been provided with such a summary. All acknowledgements must be filed with the city or town clerk.

2. Mandatory Online Training: the law requires the Commission to prepare and publish online training programs. All municipal employees, including Finance Committee members, will be required to complete such online training every two (2) years. The first round of such training occurred in April 2010, while a second round should have been completed by April of 2012. The Ethics Commission has prepared a municipal-specific training module available on the web at https:/www.mass.gov/service-details/municipal-finance-committee-members-explanation-of-the-conflict-of-interest-law.

   New employees must complete the municipal-specific online training within 30 days of hiring. If you complete the training for one position or in connection with work in one municipality, you do not need to complete it a second time for another position. Those employees who completed the program in 2015 will not need to complete the new program until the next compliance period that will run generally from December 2017 through April 2018, unless your municipality or agency establishes a compliance period for employees that falls outside the December through April compliance period. In that case all public employees must complete the online training program and provide a certificate of completion within the period of ninety (90) days before, or ninety (90) days after, the two (2) year anniversary date of their last online training completion date. Upon completion of the training program, the employee must supply a copy of the certificate of completion with the municipal employer and must be kept on file for a period of six (6) years.

3. Municipal Liaison to Ethics Commission: each city and town must designate a "senior level employee of the municipality" to serve as its liaison to the Commission. Municipalities were required to designate their liaison on or before January 27, 2010. Finance committee members should be aware who this individual is in their community.

This appendix was prepared by the law firm of Kopelman and Paige, and updated by Juliana deHaan Rice in 2012 and Douglas W. Heim in 2014, 2017 and 2021.


Appendix E: Town Credit Rating

A credit rating is a determination by an independent rating authority on the ability and willingness of an issuer of debt (bonds or notes) to make debt service payment in full and on time. A credit rating is purchased by the issuer when it sells its debt in order to attract as many buyers as possible. A good credit rating will provide the basis on which buyers may conclude that their investments are safe and that they will be paid principal and interest when due. The credit rating also provides the investor with the information needed to weigh the risk of the investment with the reward (or interest rate). This credit rating service is provided by several companies, including Moody's Investors Service, Standard & Poor's Corporation, Fitch Investors Service and Kroll Bond Rating Agency.

The rating agencies have four general areas that they research in developing their ratings on bonds or long term debt. A lesser number of towns apply for credit ratings on their notes (short term debt) unless they have a very large issue, so we will focus on long term ratings. The four areas are economics, finance, debt and management.

Economics - This area focuses on the ability of the community and its taxpayers to absorb the debt being issued. The credit rating agency examines such topics as median family income, per capita income, house values, breakdown of the tax base among residential, commercial and industrial properties, unemployment rates, growth within the community represented by such measurements as building permits and new jobs, and the ability of the community to absorb new growth. Of the four, economics is the most important factor and the least amenable to short term change. To a degree it will set the ceiling for the credit rating on your town, but it will not provide a floor. A wealthy but mismanaged community can be dropped to the same rating as a poor, struggling city or town.

Finances - This area focuses on the ability of the town to manage its budgets and finances. The town must demonstrate that it enacts truly balanced budgets, maintains adequate levels of reserves, mails and collects its taxes in a timely manner, and meets all of its obligations on a yearly basis. The subject of reserves is especially important because they provide the town with the ability to weather unforeseen adverse financial events and periodic economic downturns. Analysts will focus on the fund balances (both unassigned and total) free cash, collection rates, overlay or revenue deficits, stabilization and other reserve funds, budgets and tax recap sheets. Short term fluctuations are not as important as long term trends. If the trends are negative, a town must demonstrate that it is aware of the problems and what steps are being taken to strengthen its financial future.

Debt - This area includes not only the long and short term debt of the town, but long term contractual obligations such as trash disposal contracts, unfunded pension obligations, other post employment benefit obligations such as health insurance, and overlapping debt of the town from regional school, sanitary or other districts. Being a developed state, our debt is relatively low, and, thanks to various pension reforms of the 1980's, pension obligations are being funded. Fully self supported enterprise funds have reduced the impact of debt from local and regional water and sewer projects. In order to reduce any concerns by rating agencies in this area, it is important to plan carefully each debt authorization and issuance to minimize the budget impact while paying off the bonds in as short a period as possible. Designated revenue sources such as Proposition 2 1/2 debt exclusions and water, sewer or other revenues or a declining debt budget can be very useful in demonstrating how additional debt service will be absorbed within the budget.

A new long-term obligation that has recently entered this area is retired employee benefits. This was brought to the attention of municipalities by GASB 45. During the fiscal years 2008-2010, depending upon the size of the budget, all governmental entities needed to report the accrued unfunded liability of all retired municipal employee benefits in their annual audits. The rule does not require the municipality to actually fund the liability, but it will put the issue squarely before the town, its citizens and the rating agencies.

Management - This area is the hardest to quantify. Basically it represents a judgment by the agency on whether the management of the municipality understands its current problems and future challenges and has taken actions designed to ensure long term financial stability. The agency will look at factors such as: the ability to pass truly balanced budgets without relying on the use of reserves; the willingness to raise taxes and fees when the financial situation requires; and the ability to mail and collect taxes in an effective and efficient manner. The agencies will be interested in long term capital plans, revenue and expenditure forecasts, updated and complete accounting systems, how well the local officials work together and fiscal policies in place, the underlying assumptions and trends supporting those policies and the ability of the municipality to adhere to them.

A credit rating is more than a tool designed to obtain a lower interest rate on bonds. It is an objective third party analysis of how well the community and its management is doing. As such, it can raise many emotions if the “right” rating is not received. It is important to remember that the rating is a reflection of the agency’s analysis of all four of the above factors. It is very possible to have top flight management in a municipality with a lower rating due to economic factors beyond its control and average management in a high rated community with very strong wealth levels. The key is to understand why the rating was received, what the concerns are, if any, and what needs to be done to reinforce or improve the rating in the future. If the rating is seen as providing objective feedback with which to improve the community’s financial future, the rating process can provide an opportunity for you as a local official and for the community.

Municipalities have traditionally been rated lower than corporations with similar default profiles. In effect there were two standards. With the turmoil in the municipal securities market caused by the downgrade of bond insurance companies, state and municipal leaders began calling for the elimination of this double standard. Under pressure from Congress, all four credit rating agencies have recalibrated municipal credits to reflect their default potential on a par with private corporations and made the rating process particularly transparent for the issuer.

This appendix was written by Allan Tosti and updated by Cinder McNerney.


Appendix F: Community Preservation Act

Introduction

The Massachusetts Community Preservation Act (the "CPA") permits cities and towns that accept its provisions to levy a surcharge on its real property tax levy and to receive state matching funds for the acquisition, creation, preservation, rehabilitation and restoration of open space, historic resources and affordable housing. The provisions of the CPA must be accepted by the voters of the city or town at an election after such provisions have first been accepted by either a vote of the legislative body of the city or town or an initiative petition signed by 5% of its registered voters.

A city or town may approve a surcharge of up to 3% of the real property tax levy, and it may accept one or more exemptions to the surcharge under the CPA, including an exemption for low-income individuals and families and for low and moderate-income senior citizens, an exemption for $100,000 of the value of each taxable parcel of residential real property, and an exemption for commercial and industrial properties in cities and towns with classified tax rates. The surcharge is not counted in the total taxes assessed for the purpose of determining the permitted levy amount under Proposition 2½. A city or town may revoke its acceptance of the provisions of the CPA at any time after 5 years from the date of such acceptance and may change the amount of the surcharge or the exemptions to the surcharge at any time, provided that any such revocation or change must be approved pursuant to the same process as acceptance of the CPA.

Any city or town that accepts the provisions of the CPA will receive annual state matching grants to supplement amounts raised by its surcharge on the real property tax levy. The state matching funds are raised from certain recording and filing fees of the registers of deeds. Those amounts are deposited into a state trust fund and are distributed to cities and towns that have accepted the provisions of the CPA, which distributions are not subject to annual appropriation by the state legislature. The amount distributed to each city and town is based on a statutory formula which requires that 80% of the amount in the state trust fund be used to match an equal percentage of the amount raised locally by each city and town, and that the remaining 20% of the amount in the fund be distributed only to those cities and towns that levy the maximum 3% surcharge based on a formula which takes into account equalized property valuation and population, resulting in larger distributions to those communities with low valuations and small populations. The total state distribution made to any city or town may not, however, exceed 100% of the amount raised locally by the surcharge on the real property tax levy.

The amounts raised by the surcharge on real property taxes and received in state matching funds are required to be deposited in a dedicated community preservation fund. Each city or town that accepts the provisions of the CPA is required to establish a community preservation committee to study the community preservation needs of the community and to make recommendations to the legislative body of the city or town regarding the community preservation projects that should be funded from the community preservation fund. Upon the recommendations of the committee, the legislative body of the city or town may appropriate amounts from the fund for permitted community preservation purposes or may reserve amounts for spending in future fiscal years, provided that at least 10% of the total annual revenues to the fund must be spent or set aside for open space purposes, 10% for historic resource purposes and 10% for affordable housing purposes.

The CPA authorizes cities and towns that accept its provisions to issue bonds and notes in anticipation of the receipt of surcharge revenues to finance community preservation projects approved under the provisions of the CPA. Bonds and notes issued under the CPA are general obligations of the city or town and are payable from amounts on deposit in the community preservation fund. In the event that a city or town revokes its acceptance of the provisions of the CPA, the surcharge shall remain in effect until all contractual obligations incurred by the city or town prior to such revocation, including the payment of bonds or notes issued under the CPA, have been fully discharged.

This appendix was prepared and updated by Richard Manley, Esq.

Appendix G: Glossary of Terms

Abatement - A reduction or elimination of a levy imposed by a governmental unit, applicable to tax levies, motor vehicle excise, fees, charges, and special assessments.

Accounting System - The total structure of records and procedures which identify, record, classify, and report information on the financial position and operations of a governmental unit or any of its funds, balanced account groups, and organizational components.

Accrued Interest - In an original governmental bond sale, accrued interest is the amount of interest which has accumulated on the bonds from the day they are dated, up to but not including, the date of delivery (settlement date).

Amortization - The gradual elimination of an obligation, such as a bond, according to a specified schedule of times and amounts. The principal amount of a home mortgage, for example, is amortized by monthly payments.

Appropriation - An authorization granted by a legislative body to make expenditures and to incur obligations for specific purposes. An appropriation is usually limited in amount and as to the time when it may be expended. Only a town meeting, council or the school committee can authorize money appropriated for one purpose to be used for another. Any amount which is appropriated may be encumbered (see Encumbrance). Any part of a "general" appropriation not spent or encumbered by June 30 automatically reverts to the undesignated fund balance which may result in Free Cash. If departments know of remaining unpaid bills at the close of the fiscal year and properly notify the accountant (Chapter 41, s 58), the departmental appropriation is encumbered to extend the general spending authorization until such time that the bill is paid or it is decided not to spend the funds. If these encumbrances are not acted on within a year, the accountant generally notifies the department and closes them out. A special warrant article/ appropriation, on the other hand, may carry forward from year to year until until it is expended or closed.

Arbitrage - As applied to municipal debt, the investment of tax exempt bond or note proceeds in taxable higher yielding securities. This practice is restricted under Section 103 of the Internal Revenue Service (IRS) Code, and (beyond certain limits) earnings are required to be rebated (paid) to the IRS.

Arbitrage Certificate - A certified statement requested by purchasers and law firms serving as bond counsel in Massachusetts that borrowing proceeds of a specified bond issue shall not be used for the purposes of arbitrage. See Arbitrage.

Assessed Valuation - A valuation set upon real estate or other property by a government as a basis for levying taxes. In Massachusetts, assessed valuation is based on "full and fair cash value," the amount a willing buyer would pay a willing seller on the open market. Assessors must collect, record, and analyze information about the physical characteristics of the property and the market in order to estimate the fair market value of all taxable properties in their communities.

Audit - An examination of systems, procedures and financial data by a certified accountant, reporting on the fairness of financial statements and compliance with statutes and regulations. (The audit is a valuable management tool for evaluating the fiscal performance of a community.)

Audit Report - The product of an audit prepared by an independent auditor. The report often includes: (a) a statement of the scope of the audit; (b) explanatory comments as to application of auditing procedures; (c) findings and opinions; (d) financial statements and schedules; and (e) statistical tables, supplementary comments, and recommendations.

Authentication - *See Certification.*

Available Funds - These are funds established through previous appropriations or results of favorable conditions. These may be appropriated to meet emergency or unforeseen expenses, large one-time or capital expenditures. Examples: Free Cash, Stabilization Fund, Overlay Surplus, Water Surplus, and enterprise retained earnings

Balance Sheet - A statement which discloses the assets, liabilities, reserves and equities of a fund or governmental unit at a specified date.

Basis of Accounting - Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported on the financial statements. Basis of accounting is related to the timing of the measurements made, regardless of the measurement focus applied. All governmental funds and expendable trust and agency funds could be accounted for using the modified accrual basis of accounting. Revenues are recognized when they become measurable and available, as net current assets, with the following guidelines: Property taxes, excise taxes, departmental and governmental receivables are recorded as revenue when received in cash, as well as amounts received during the first 60 days of the following fiscal year. Expenditures are generally recognized under the accrual basis of accounting when the related fund liability is incurred. Exceptions to this general rule include principal and interest on general long-term debt which is recognized when due. All proprietary funds and nonexpendable trust and pension trust funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

Basis Price - The price expressed in yield or net return to maturity on investment. A basis point equals 1/100th of 1%.

Betterments (Special Assessments) - Whenever a specific area of a community receives benefit from a public improvement (e.g., water, sewer, sidewalk, etc.), special property taxes may be assessed to reimburse the governmental entity for all or part of the costs it incurred. Each parcel receiving benefit from the improvement is assessed for its proportionate share of the cost of such improvements. The proportionate share may be paid in full or the property owner may request the assessors apportion the betterment over 20 years. Over the lifetime of the betterment, one year's apportionment along with one year's committed interest computed from October 1 to October 1 is added to the tax bill until the betterment has been paid.

Bond - A written promise to pay a specified sum of money, called the face value (par value) or principal amount, at a specified date or dates in the future, called maturity date(s), together with periodic interest at a specified rate. The difference between a note and a bond is that the latter runs for a longer period of time.

Bond and Interest Record - The permanent and complete record maintained by a treasurer for each bond issue. It shows the amount of interest and principal coming due each date, the bond numbers, and all other pertinent information concerning the bond issue. The term is synonymous with Bond Register.

Bond Anticipation Note (BAN) - Once borrowing for a specific project has been approved by two-thirds vote of town meeting or city council and prior to issuing long-term bonds, short-term notes may be issued to provide cash for initial project costs. BANs may be issued for a period not to exceed TEN years, but with a reduction of principal after two years (Chapter 44, s 17). The final maturity date of the project borrowing, beginning from the date the short-term note was issued, may not exceed the term specified by statute (Chapter 44, s 7 and 8). BANs are full faith and credit obligations.

Bond Authorization - *See Debt Authorization.*

Bonds Authorized and Unissued - Bonds which a government has been authorized to sell but has not yet done so. Issuance at this point is only contingent upon action by the treasurer, manager and mayor or select board.

Bond Buyer - A daily trade paper containing current and historical information of interest to the municipal bond business.

Bond Counsel - An attorney or law firm engaged to review and submit an opinion upon legal aspects of a municipal bond or note issue.

Bond Discount - The excess of the face value of a bond over the price for which it is acquired or sold. An example is a $1,000 bond which is sold for $990. The discount equals $10.

Bond Issue - Generally, the sale of a certain number of bonds at one time by a governmental unit.

Bonds Payable - The face value of bonds issued and unpaid.

Bond Premium - The excess of the price at which a bond is acquired or sold over its face value. An example is a $1,000 bond which sells for $1,010. The premium equals $10.

Broker - Acts as an intermediary between dealers in obtaining and matching bids offers. Their fee for consummating a transaction is charged to the seller.

Budget - A plan of financial operation embodying an estimate of proposed revenues and expenditures for a given period and the proposed means of financing them. A budget may be "preliminary" - the financial plan presented to the Town Meeting, or "final" - the plan approved by that body. The budget should be separated into basic units, either by department, program or service. The format is important because by classifying by service or department, the budget is clearly defined and more easily understood by both local officials and Town Meeting.

Budget Message - A statement by the town's policymakers summarizing the plans and policies contained in the budget report, including an explanation of the principal budget items, an outline of the municipality's experience during the past year and its financial status at the time of the message, and recommendations regarding financial policy for the coming fiscal year.

Budget Unit - A department to which the town meeting appropriates funds.

Capital Budget - An annual appropriation or spending plan for capital expenditures (tangible assets or projects that cost at least $25,000 and have a useful life of at least five years). This budget should recommend the method of financing for each item recommended and identify those items which are recommended to be deferred due to scarce resources.

Capital Expenditures/Improvements - These are items generally found in the capital budget such as construction, acquisitions, site development, major repairs or replacement to capital facilities and public ways and overhead costs. The fees for architects, engineers, lawyers, and other professional services plus the cost of financing, advance planning may be included.

Capital Improvements Program - A comprehensive schedule for planning a community's capital expenditures. It coordinates community planning, fiscal capacity and physical development. While all of the community's needs should be identified in the program, there should also be a set of criteria which prioritizes the expenditures. The capital program is a plan for capital expenditures that extends five years beyond the capital budget and is updated yearly.

Capital Outlay Expenditure Exclusion - A vote by a community at an election to exclude payments for a single year capital project from the levy limit. The exclusion is limited to one year and may temporarily increase the levy above the levy ceiling.

Cash - Currency, coin, checks, postal and express money orders, and bankers' drafts on hand or on deposit with an official or agent designated as custodian of cash and bank deposits.

Cash Management - The process of managing monies of a local government in order to insure the safety of funds, maximum cash availability and maximum yield on short-term investment of idle cash.

Cemetery Perpetual Care - These funds are donated by individuals for the care of grave sites. According to Chapter 114, s 25, funds from this account must be invested and spent as directed by perpetual care agreements. If no agreements exist, interest (but not principal) may be used as directed by the cemetery commissioners for the purpose of maintaining cemeteries.

Certification - The action of a bank or trust company (or DOR's Bureau of Accounts for State House Notes) in certifying the genuineness of the municipal signatures and seal on a bond issue. The certifying agency may also supervise the printing of bonds and otherwise safeguard their preparation against fraud, counterfeiting, or over-issue. Also known as Authentication.

Certificate of Deposit (CD) - A bank deposit evidenced by a negotiable or non-negotiable instrument which provides on its face that the amount of such deposit plus a specified interest payable to the bearer or to any specified person on a certain date specified in the instrument, at the expiration of a certain specified time, or upon notice in writing.

Cherry Sheet - Named for the cherry colored paper on which it was originally printed, the Cherry Sheet is the official notification from the Commissioner of Revenue of the next fiscal year's state aid and assessments to communities and regional school districts. State aid to municipalities and regional school districts consists of two major types — distributions and reimbursements. Distributions provide funds based on formulas while reimbursements provide funds for costs incurred during a prior period for certain programs or services. In addition, communities may receive "offset items" which must be spent on specific programs. Cherry Sheet Assessments are advanced estimates of state assessments and charges and county tax assessments. Local assessors are required to use these figures in setting the local tax rate. (Because these figures are estimates, it should be noted that based on filing requirement and/or actual data information the final aid or assessment may differ.)

Cherry Sheet Offset Items - Local aid accounts which may be spent without appropriation in the budget, but which must be spent for specific municipal and regional school district programs. Current offset items include Racial Equality Grants, School Lunch Grants, and Public Libraries Grants.

Classification of Real Property - Assessors are required to classify all real property according to use into one of four classes: Residential, Open Space, Commercial, and Industrial. Having classified its real properties, local officials are permitted to determine locally, within limitations established by statute and the Commissioner of Revenue, what percentage of the tax burden is to be borne by each class of real property and by personal property owners (see Classification of the Tax Rate).

Classification of the Tax Rate - In accordance with Chapter 40, s 56, the select board members vote to determine the tax rate options. Based on the residential factor adopted (see Residential Factor), any community may set as many as three different tax rates for: residential property; open space; and commercial, industrial and personal property.

Collective Bargaining - The negotiations between an employer and union representative regarding wages, hours, and working conditions.

Conservation Fund - This fund may be expended for lawful conservation purposes as described in Chapter 40, s 8C. This fund may also be expended for damages related to the taking of land by eminent domain provided that such taking has first been approved by a two-thirds vote of city council or town meeting.

Consumer Price Index - The statistical measure of changes in the overall price level of consumer goods and services based on prices of goods and services purchased by urban wage earners and clerical workers, including families and single persons. The index is often called the "cost-of-living index."

Cost-Benefit Analysis - An analytical approach to solving problems of choice. First, different ways to achieve an objective are identified. Then an alternative is chosen to produce the required benefits at the lowest cost or greatest benefits for a given cost.

Contingent Debt - Debt which is not in the first instance payable as a direct obligation of the governmental unit, but has been guaranteed by a pledge of its faith and credit. (An industrial revenue bond guaranteed by a municipality would constitute contingent debt.)

Contingent Liabilities - Items which may become liabilities as a result of conditions undetermined at a given date, such as guarantees, pending lawsuits, judgments under appeal, unsettled disputed claims, unfilled purchase orders, and uncompleted contracts.

Crosswalk - A clear path linking separate considerations, such as a crosswalk between a line-item and program budget. For example, all department appropriations are set up the same way. However, because of the programmatic and reporting responsibilities a school department has to the Department of Education (DOE), a school department generally has a very detailed set of line-items by program. Expenditures must be tracked for DOE's purposes yet easily communicated to the town accountant. Therefore, a crosswalk is established from the infinitesimal school detail to the larger picture of the town's appropriation.

Current Yield - The coupon rate or percent of the annual interest divided by the market price of a bond.

CUSIP - This stands for the Standard Securities Classification System developed by the Committee on Uniform Security Identification Procedures of the American Bankers Association. CUSIP provides a unique number for each new security issued.

Debt Authorization - Formal approval to incur debt by municipal officials, in accordance with procedures stated in Chapter 44, specifically s 1, 2, 3, 4a and 6-15.

Debt Burden - The level of debt of an issuer, usually as compared to a measure of value (debt as a percentage of assessed value, debt per capital, etc.). Sometimes debt burden is used in referring to debt service costs as a percentage of the annual budget.

Debt Exclusion - This is a vote by a municipality at an election to exclude debt service payments for a particular capital project from the levy limit. The amount necessary to cover the annual debt service payment is added to the levy limit for the life of the debt only. A debt exclusion may temporarily increase the levy above the levy ceiling. Also see School Building Assistance Program.

Debt Limit - The maximum amount of debt which a municipality may have authorized for qualified purposes under state and self-imposed ceilings.

Debt Service - The cost (usually stated in annual terms) of the principal retirement and interest of any particular issue.

Default - Failure to pay principal or interest when due.

Direct Debt - Debt which a municipality has incurred in its own name, as opposed to overlapping debt.

Effective Interest Rate - For a municipal borrower, the net cost of borrowing (expressed as an interest rate) after costs associated with a loan is accumulated and added to the nominal interest rate.

Encumbrance - Obligations in the form of purchase orders, contract, or salary commitments which are chargeable to an appropriation and for which a part of the appropriation is reserved.

Enterprise Funds - An accounting mechanism which allows a community to demonstrate to the public the portion of total costs of a service that is recovered through user charges and the portion that is subsidized by the tax levy. With an enterprise fund, all costs of service delivery-direct, indirect, and capital costs-are identified. This allows the community to recover total service costs through user fees if it so chooses. Enterprise accounting also enables communities to reserve the "surplus" or retained earnings generated by the operation of the enterprise rather than closing it out at year end. According to Chapter 44 s 53F, the services that may be treated as enterprises include, but are not limited to, water, sewer, hospital, and airport services.

Equalized Valuations (EQVs) - The determination of the full and fair cash value of all property in the Commonwealth which is subject to local taxation. EQVs have historically been used as variables in distributing certain state aid accounts, and for determining county assessments and certain other costs. The Commissioner of Revenue, in accordance with Chapter 58 s 10C, is charged with the responsibility of biannually determining an equalized valuation for each town and city in the Commonwealth.

Estimated Receipts - Estimates of state and local miscellaneous receipts based on previous year's receipts deducted by the Assessors from gross amount to be raised by taxation.

Excess And Deficiency - Also called the "surplus revenue" account, this is the amount by which cash, accounts receivable and other assets exceed the liabilities and reserves.

Excess Levy Capacity - The difference between the levy limit and the amount of real and personal property taxes actually levied in a given year. Annually, the select board or council must be informed of excess levying capacity and evidence of such acknowledgment must be submitted to DOR when setting the tax rate.

Exemptions - Upon approval of an application to the Board of Assessors, these are full or partial discharges from the obligation to pay a property tax by statute on particular categories of property or persons. Examples include hospitals, schools, houses of worship, and cultural institutions that are of benefit to the community. In addition, exemptions may be granted for qualified veterans, blind individuals, surviving spouses, persons over 70 years of age, and certain financial hardships.

Expenditure - The spending of money by the town, or city, for programs within the approved budget.

Federal Aid Anticipation Note (FAAN) - A short-term loan issued to be paid off at the time of receipt of a federal grant. FAANs are full faith and credit obligations.

Fiduciary Funds - Fiduciary funds account for assets held by the municipality in a trustee capacity or as an agent for individuals, private organizations, other governments, and other funds. These include expendable trust, nonexpendable trust, pension trust, and agency funds. Nonexpendable trust and pension trust funds are accounted for in essentially the same manner as proprietary funds since capital maintenance is critical. Expendable trust funds are accounted for in essentially the same manner as governmental funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Financial Advisor - An individual or institution which assists municipalities in the issuance of bonds and notes. This function in Massachusetts is performed either by the public finance department of a commercial bank or a non-bank advisor.

Fiscal Year - The Commonwealth, state and municipalities (as of 1974) operate on a fiscal year which begins on July 1 and ends on June 30. The number of the fiscal year is that of the calendar year in which the fiscal year ends; e.g., the 2015 fiscal year, July 1, 2014 to June 30, 2015, usually written as FY15. This, however, no longer coincides with the fiscal year followed by the federal government, for beginning in 1976 the federal fiscal year was changed to begin on October 1 and end on September 30.

Fixed Costs - These are costs which are legally or contractually mandated. (Examples: retirement, FICA/ Social Security, insurances or debt service.)

Float - The amount of money making up the difference between the bank balance for a local government's account and its book balance at the end of the day. The primary factor creating float is clearing time on checks and deposits. Delays in receiving deposit and withdrawal information also influence float.

Foundation Budget - The target set for each school district defining the spending level necessary to provide an adequate education for all students. The Foundation Budget is comprised of both local effort and state aid.

Free Cash - (Also Budgetary Fund Balance) Funds remaining from the operations of the previous fiscal year which are certified by DOR's Director of Accounts as available for appropriation. Remaining funds include unexpended free cash from the previous year, receipts in excess of estimates shown on the tax recapitulation sheet, and unspent amounts in budget line-items. Unpaid property taxes and certain deficits reduce the amount of remaining funds which can be certified as free cash. The calculation of free cash is made based on the balance sheet, which is submitted by the community's auditor, accountant, or comptroller.

Typically, a community will attempt to maintain a free cash balance of between 3 and 5 percent of its total budget as a hedge against unforeseen expenditures, to insure there will be an adequate reserve to prevent sharp fluctuations in the tax rate, and to prevent expensive short-term borrowing. (Maintenance of an adequate free cash level is not a luxury but a necessary component of sound local fiscal management. Credit rating agencies and other members of the financial community expect municipalities to maintain free cash reserves; judgments regarding a community's fiscal stability are made, in part, on the basis of free cash.) Also see Available Funds.

Full Faith and Credit - A legal pledge of the general taxing powers for the payment of governmental obligations. Bonds carrying such pledges are usually referred to as general obligation or full faith and credit bonds.

Fund - An accounting entity with a self balancing set of accounts which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with specific regulations, restrictions or limitations.

Fund Accounting - Organizing the financial records of a municipality into multiple funds. A fund is a distinct entity within the municipal government in which financial resources and activity (assets, liabilities, fund balances, revenues, and expenditures) are accounted for independently in accordance with specific regulations, restrictions or limitations. Examples of funds include the General Fund and Enterprise Funds. Communities whose accounting records are organized according to the Uniform Municipal Accounting System use multiple funds.

General Fund - This non-earmarked fund is used to account for most financial resources and activity governed by the normal Town Meeting/City Council appropriation process.

General Obligation Bonds - Bonds issued by a municipality which are backed by the full faith and credit of its taxing authority.

Governing Body - The board, committee, commissioners or other legislative body of a governmental unit including the school committee of a municipality.

Indirect Cost - Costs of a service not reflected in the service's operating budget. A determination of these costs is necessary to analyze the total cost of service delivery. (An example of an indirect cost of providing water service would be health insurance costs for water employees.)

Industrial Revenue Bond - A bond used by a municipality or development corporation to acquire an industrial capacity to be leased to a private corporation; these are not general obligation bonds.

Interest - Compensation paid or to be paid for the use of money, including interest payable at periodic intervals or as discount at the time a loan is made.

Interest Rate - The interest payable, expressed as a percentage of the principal available for use during a specified period of time. It is always expressed in annual terms.

Investments - Securities and real estate held for the production of income in the form of interest, dividends, rentals, or lease payments. The term does not include fixed assets used in governmental operations.

Judgment - An amount to be paid or collected by a governmental unit as a result of a court decision, including a condemnation award in payment for private property taken for public use.

Judgment Bonds - Bonds issued to fund judgments.

Land Fund - A fund established in FY86 to which may be added an annual appropriation earmarked for the acquisition of land or debt service on designated land purchases.

Law Enforcement Trust Fund - A revolving fund established to account for a portion of the proceeds from the sale of property seized from illegal drug-related activities. Funds may be expended to defray certain qualified law enforcement costs as outlined in Chapter 94C, s 47. Funds from this account may be expended by the police chief without further appropriation.

Legal Opinion - An opinion, by an attorney or law firm, that bonds have been legally issued by a public body, and that the bonds are exempt (or not) from federal income taxes and some Massachusetts taxes under existing laws, regulations and rulings.

Levy Ceiling - The maximum tax assessed on real and personal property may not exceed 2.5 percent of the total full and fair cash value of all taxable property (Chapter 59 s 21C). Property taxes levied may exceed this limit only if the community passes a capital outlay expenditure exclusion, a debt exclusion, or a special exclusion.

Levy Limit - The maximum amount a community can levy in a given year. The limit can grow each year by 2.5 percent of the prior year's levy limit (Chapter 59 s 21C (f,g,..k)) plus new growth and any overrides. The levy limit can exceed the levy ceiling only if the community passes a capital expenditure exclusion, debt exclusion, or special exclusion.

Line-Item Budget - A budget which focuses on inputs of categories of spending, such as supplies, equipment, maintenance, or salaries, as opposed to a program budget.

Local Aid - Revenue allocated by the Commonwealth to towns, cities and regional school districts. Estimates of local aid are transmitted to towns, cities and districts annually by the "Cherry Sheet." Most of the Cherry Sheet aid programs are considered revenues of the municipality's or regional school district's general fund and may be spent for any purpose, subject to appropriation.

Local Appropriating Authority - In a town, the town meeting, which has the power to levy directly a property tax. In a city, the city council has the power.

Local Receipts - Locally generated revenues other than real and personal property taxes and excluding enterprise fund revenues. Examples include motor vehicle excise, investment income, hotel/motel tax, fees, rentals, and charges. Annual estimates of local receipts are shown on the tax rate recapitulation sheet.

Lock Box - An effective case management system that reduces the float: payments are mailed to a post office box. The bank collects and processes these checks several times a day.

Maturity - The date upon which the principal of a bond becomes due and payable.

Massachusetts Municipal Depository Trust - Founded in 1977, it is an investment program in which municipalities may pool excess cash. It is under the supervision of the State Treasurer.

Minimum Required Local Contribution - The minimum that a town or city must appropriate from property taxes and other local revenues for the support of schools.

Moody's Investment Services, Inc. - One of the leading municipal bond rating agencies.

Municipal(s) - (As used in the bond trade) "Municipal" refers to any governmental unit below or subordinate to the state. "Municipals" (i.e., municipal bonds) include not only the bonds of all local subdivisions such as towns, cities, school districts, special districts, but also bonds of states and agencies of the state.

Municipal Revenue Growth Factor - An estimate of the percentage change in a municipality's revenue growth for a fiscal year. It represents the combined percentage increase in the following revenue components: automatic 2 percent increase in the levy limit, estimated new growth, the change in selected unrestricted state aid categories, and the change in selected unrestricted local receipts.

M.G.L (or M.G.L.A.) - Massachusetts General Laws, Annotated

Municipal Finance Oversight Board - A board authorized by Chapter 10 s 47 to review and approve applications by municipalities to exceed their statutory debt limit, define the term of borrowing for certain purposes, approve "emergency appropriations" under Chapter 44 S. 8 and designate issues of "Qualified Bonds" under Chapter 44a.

Net School Spending (NSS) - Includes both school budget and municipal budget amounts attributable to education, excluding long-term debt service, student transportation, school lunches and certain other specified school expenditures. A community's NSS funding must equal or exceed the NSS Requirement established annually by the Department of Elementary and Secondary Education.

New Growth - The taxing capacity added by new construction and other increases in the property tax base. New growth is calculated by multiplying the value associated with new construction by the tax rate of the previous fiscal year. For example, FY15 new growth is determined by multiplying the value of new construction in calendar 2013 (as valued on January 1, 2014) by the FY14 tax rate. All increases in value that are not the result of revaluation or appreciation now qualify for inclusion in new growth figures.

Nominal Interest Cost (NIC) - The computed cost of a bond issue, used to compare competitive bids. The bidder with the lowest net interest cost is awarded the bond issue.

Nominal Interest Rate - The contractual interest rate shown on the face and in the body of the bond.

Note - A short-term loan, typically of a year or less in maturity.

Notice of Sale - A detailed statement which is published to advertise the sale of municipal bonds by competitive bid.

Objective - Precise statement of expected output.

Objects of Expenditures - A classification of expenditures that is used for coding any department disbursement, such as "personal services", "expenses", or "capital outlay".

Official Statement - A document containing information about a prospective bond issue or a note issue which contains information about the issue and the issuer, and is intended for the potential investor. The Official Statement is sometimes published with the Notice of Sale. It is sometimes called an Offering Circular or Prospectus.

Offset Receipts - Includes certain education programs and the aid to public libraries program which are designated on the Cherry Sheet as offset items. These amounts can be spent without appropriation but must be spent only for these specific programs.

Operating Budget - The plan of proposed expenditures for personnel, supplies, and other expenses for the coming fiscal year.

Other Amounts to be Raised - The amounts raised through taxation, but which are not appropriations items. Generally, these are locally generated expenditures (e.g., overlay, teacher pay deferral, deficits) as well as state, county and other special district charges. Because these must be funded in the annual budget, special consideration should be given to them when finalizing the budget recommendations to Town Meeting. (See Tax Recapitulation.)

Overlapping Debt - The share of regional school district and/or other regional agency debt which is allocable to and payable by a municipality as part of the fees or assessment from the regional entity.

Overlay - (Overlay Reserve or Reserve for Abatements and Exemptions) An account established annually to fund anticipated property tax abatements and exemptions in that year. The overlay reserve is not established by the normal appropriation process, but rather is raised on the tax rate recapitulation sheet.

Overlay Deficit - A deficit that occurs when the amount of overlay raised in a given year is insufficient to cover abatements and statutory exemptions for that year. Overlay deficits must be provided for in the next fiscal year.

Overlay Surplus - Any balance in the overlay account of a given year in excess of the amount remaining to be collected or abated can be transferred into this account (See Overlay). Within ten days of a written request by the chief executive officer of a town or city, the assessors must provide a certification of the excess amount of overlay available to transfer. Overlay surplus may be appropriated for any lawful purpose. At the end of each fiscal year, unused overlay surplus is "closed" to surplus revenue; i.e., it becomes a part of free cash.

Override - A vote by a community at an election to permanently increase the levy limit. An override vote may increase the levy limit to no higher than the levy ceiling. The override question on the election ballot must state a purpose for the override and the dollar amount. (See Underride.)

Override Capacity - The difference between a community's levy ceiling and its levy limit. It is the maximum amount by which a community may override its levy limit.

Par Value - The face amount of a bond, e.g., $ 1,000 or $5,000.

Parking Meter Receipts Reserved for Appropriation - This fund allows a community to charge for parking and to reserve these proceeds in a separate account. In accordance with Chapter 40 s 22A, the proceeds may be used to offset certain expenses for the acquisition, installation, maintenance and operation of parking meters and the regulation of parking and other traffic activities.

Paying Agent - A bank or other institution which acts as the agent for a municipality in making bond interest and principal payments.

Performance Budget - A budget which stresses output both in terms of economy and efficiency.

Personnel Services - The cost of salaries, wages and related employment benefits.

Premium - The amount by which the price exceeds the principal amount of a bond or par value.

Price Index - A statistical measure of change in overall prices. There are different indices, but they all compare the change in cost of a certain "bundle" of goods and services over a given period of time.

Principal - The face amount of a bond, exclusive of accrued interest.

Productivity - The ratio of outputs to inputs, or the amount of output per unit of input. Unit A is more productive than unit B if (1) it uses less resources but has the same output, or (2) it uses the same resources and has a greater output.

Program - A combination of activities to accomplish an end.

Program Budget - A budget which relates expenditures to the programs they fund. The emphasis of a program budget is on output.

Property Tax Levy - The amount a community can raise through the property tax. The levy can be any amount up to the levy limit plus exclusions.

Purchased Services - The cost of services that are provided by a vendor.

Ratings - Designations used by credit rating services to give relative indications of quality. Moody's ratings range from the highest Aaa down through Aa, A- 1, A, Baa- 1, Baa, Ba, B, Caa, Ca, C. Standard & Poor's ratings include: AAA, AA, A, BBB, BB, B, CCC, CC, C, DDD, DD, and D.

Refunding - System by which an issue is redeemed by a new bond issue under conditions generally more favorable to the issuer.

Registered Bond - A bond whose owner is registered with the issuer or its agents, either as to both principal and interest or principal only.

Repurchase Agreement (Repo) - An agreement whereby a local government transfers cash to a financial institution, and the financial institution transfers securities to the local government and promises to repay the cash plus interest in exchange for the same securities within a given number of days.

Reserve for Abatements and Exemptions - *See Overlay.*

Reserve Fund - An amount set aside annually within the budget of a town (not to exceed 5 percent of the tax levy for the preceding year) or city (not to exceed 3 percent of the tax levy for the preceding year) to provide a funding source for extraordinary and unforeseen expenditures. In a town, the Finance Committee can authorize transfers from this fund for "extraordinary and unforeseen" expenditures. Other uses of the fund require budgetary transfers by Town Meeting. In a city, transfers from this fund may be voted by the City

Council upon recommendation of the Mayor.

Residential Factor - Adopted by a community annually, this governs the percentage of the tax levy to be paid by property owners. If local officials choose a low residential factor, (for example the statutory minimum set by the Commissioner of Revenue) residential property owners will pay a proportionately lower share of the total levy (split or multi-tax rate). A residential factor of "1" will result in the taxation of all property at the same rate (single tax rate).

Retained Earnings - An equity account reflecting the accumulated earnings of an enterprise fund which may be used to fund capital improvements, to reimburse the general fund for prior year subsidies, to reduce user charges and for enterprise revenue deficits (operating loss).

Revaluation (or recertification of property values) - The Assessors of each community are responsible to develop a reasonable and realistic program to achieve a fair cash valuation of property in accordance with constitutional and statutory requirements. The nature and extent of that program will depend on the assessors' analysis and consideration of many factors, including, but not limited to, the status of the existing valuation system, the results of an in-depth sales ratio study, the location and style of properties, and the accuracy of existing property record information. Every three years, assessors must submit property values to the state Department of Revenue for certification. Assessors must also maintain these values in the years between certifications. This is done so that each property taxpayer in the community pays his or her share of the cost of local government – no more or less – in proportion to the amount of money the property is worth.

Revenue Anticipation Borrowing - Cities, towns and districts may issue temporary notes in anticipation of taxes (TANs) or other revenue (RANs). The amount of this type of borrowing is limited to the total of the prior year's tax levy, the net amount collected in motor vehicle and trailer excise in the prior year and payments made by the Commonwealth in lieu of taxes in the prior year. According to c 44 s 4, towns, cities and districts may borrow for up to one year in anticipation of such revenue.

Revenue Anticipation Note (RAN) - A short-term loan issued to be paid off by revenues, such as tax collections and state aid. RANs are full faith and credit obligations.

Revenue Bond - A bond payable from and secured solely by specific revenues and thereby not full faith and credit obligations.

Revolving Fund - Allows a community to raise revenues from a specific service and use those revenues to support the service without appropriation. For departmental revolving funds, c 44 s 53E stipulates that each fund must be reauthorized each year at annual town meeting or by city council action, and that a limit on the total amount which may be spent from each fund must be established at that time. The aggregate of all revolving funds may not exceed ten percent of the amount raised by taxation by the town or city in the most recent fiscal year, and no more than one percent of the amount raised by taxation may be administered by a single department or board. No revolving fund expenditures shall be made for the purpose of paying any wages or salaries for full-time employees. Revolving funds for other programs as provided by statute are still allowed, and a departmental revolving fund may be implemented in addition to or in conjunction with other existing statutory revolving funds, provided that the departmental revolving fund does not conflict with provisions of other revolving funds.

Sale of Cemetery Lots Fund - This fund is established to account for proceeds of the sale of cemetery lots. The proceeds must be used to offset certain expenses of the Cemetery Department under provisions of Chapter 114 s 43C.

Sale of Real Estate Fund - This fund is established to account for the proceeds of the sale of municipal real estate other than proceeds acquired through tax title foreclosure. c 44 s 63 states that such proceeds shall be applied first to the retirement of debt on the property sold. In the absence of such debt, funds may generally be used for purposes for which the town or city is authorized to borrow for a period of five years or more.

Scale - The underwriter's re-offering prices expressed in yields for each maturity of a serial issue.

School Building Assistance Program - Established in 1948 and frequently revised by statutory amendments, this program of the Commonwealth provides grants for local and regional school construction projects. The SBA program is administered by the Massachusetts School Building Authority in the State Treasurer's Office. If a community votes a debt exclusion to fund a school construction project, the amount of SBA funds received towards any school construction debt must be deducted before determining the net school debt exclusion.

Security - For Massachusetts municipalities, bonds or notes evidencing a legal debt on the part of the issuer.

Serial Bond - A bond of an issue which has maturities scheduled annually over a period of years.

Sinking Fund - Amounts required to be set aside to either purchase bonds in the open market or call bonds so that term bonds will be retired at maturity. These are no longer legal in Massachusetts.

Special Assessment Bonds - These bonds are payable from the proceeds of special assessments. If, in addition to the assessments, the full faith and credit of the governmental unit are pledged, they are known as "general obligation special assessment bonds."

Special Assessments - *See Betterments.*

Special Exclusion - For a few limited capital purposes, a community may assess taxes above the amount of its levy limit or levy ceiling without voter approval. Otherwise, special debt and capital outlay exclusions are like voter approved exclusions. Presently, there are two special exclusion exclusions: 1) water and sewer project debt service costs which reduce the water and sewer rates by the same amount; and 2) a program to assist homeowners with the repair or replace faulty septic systems, the removal of underground fuel storage tanks, or removal of dangerous levels of lead paint to meet public health and safety code requirements. In the second special exclusion, homeowners repay the municipality for the cost plus interest added apportioned over a period of time not to exceed 20 years similar to betterments.

Spread - The difference between the average re-offering price and the bid price on a bond issue. The amount of spread is determined by a combination of market risk, expenses and estimated selling compensation required. It is the gross profit to the underwriters.

Stabilization Fund - An account from which amounts may be appropriated for any lawful purpose. Towns may appropriate into this fund in any year an amount not to exceed ten percent of the prior year's tax levy or a larger amount with the approval of the director of accounts. The aggregate of the stabilization fund shall not exceed ten percent of the town's equalized value, and any interest shall be added to and become a part of the fund. A two-thirds vote of town meeting or city council is required to appropriate money from the stabilization fund.

Standard & Poor's Corporation - One of the leading municipal bond rating agencies.

State Aid Anticipation Note (SAAN) - A short-term loan issued in anticipation of a state grant or aid.

State House Notes - Notes for towns, cities, counties and districts certified by the director of accounts. State House notes are generally less costly and easier to issue than conventional issues for borrowings. Therefore, these notes are more commonly used for temporary loans and smaller long-term issues.

Surplus Revenue - The amount by which cash, accounts receivable and other floating assets exceed the liabilities and reserves.

Syndicate - A group formed by one or more firms for the purpose of purchasing all or part of a new issue of municipal securities from an issuer, and making a sale thereof. See Underwriter.

Tailings - This fund is reserved for unclaimed checks written on city or town accounts. The procedures for retaining money from unclaimed checks are outlined in Chapter 200A, s 9A. Written notice must be filed with the clerk if these procedures are to be followed.

Tax Rate - The amount of tax stated in terms of a unit of the tax base; for example, $14.80 per $1,000 of assessed valuation of taxable property.

Tax Rate Recapitulation Sheet (also Recap Sheet) - A document submitted by a town or city to the Department of Revenue in order to set a property tax rate. The recap sheet shows all estimated revenues and actual appropriations which affect the property tax rate. (In order to issue the first-half semiannual property tax bills before October 1st, the recap sheet should be submitted to the Department of Revenue in September, or, in December in order to issue the third quarterly property tax bills before January 1st.)

Tax Title - Collection procedure which secures a lien on real property and protects the municipality's right to payment of overdue property taxes. (Without following this procedure, the lien on real property expires if three years elapse from the October first following the assessment date, and the property is transferred. If amounts remain outstanding on the property after issuing a demand for overdue property taxes and after publishing a notice of tax taking, the collector may take the property for the city or town. After properly recording the instrument of taking, the collector transfers responsibility for collecting the overdue amounts to the treasurer.)

Term Bond - Bonds the entire principal of which matures on one date. Massachusetts municipal general obligation bonds are required by law to be retired on a serial basis.

Trust Fund - In general, a fund held for the specific purpose stipulated by a trust agreement. The treasurer acts as custodian of trust funds and invests and expends such funds as stipulated by trust agreements or as directed by the commissioners of trust funds or by town meeting. Both principal and interest may be used if the trust is established as an expendable trust. For non-expendable trust funds, interest but not principal may be expended as directed.

Uncollected Funds - Recently deposited checks included in an account's balance but drawn on other banks and not yet credited by the Federal Reserve Bank or local clearinghouse to the bank cashing the checks. (These funds may not be loaned or used as part of the bank's reserves and they are not available for disbursement.)

Underride - A vote by a community to permanently decrease the tax levy limit. As such, it is the exact opposite of Override.

Underwriter - For municipal debt issues, a commercial bank or securities dealer which purchases all or part of a new issue in order to sell the securities to investors. A group of underwriters is called a syndicate.

Unfunded Pension Liability - Unfunded pension liability is the difference between the value assigned to the retirement benefits already deemed by a town's employees and the assets the town's retirement system will have on hand to meet these obligations. The dollar value of the unfunded pension liability is driven by assumptions about interest rates at which a retirement system's assets will grow and the rate of future costs of living increases to pensioners.

Uniform Municipal Accounting System (UMAS) - A comprehensive and practical municipal accounting system that conforms to Generally Accepted Accounting Principles (GAAP) for local governments. UMAS is regarded by the Department of Revenue as the professional standard for modern municipal accounting in Massachusetts. (Among the benefits of conversion to UMAS are increased consistency in reporting and record keeping and enhanced comparability of data among cities and towns.)

Unreserved Fund Balance - Also referred to sometimes as the "surplus revenue account", this is the amount by which cash, accounts receivable, and other assets exceed liabilities and restricted reserves. It is akin to "stockholders' equity" account on a cooperate balance sheet. It is not, however, available for appropriation in full because a portion of the "assets listed as "accounts receivable" may be taxes receivable and uncollected. (See Free Cash).

Valuation (100%) - Requirement that the assessed valuation must be the same as the market value for all properties; 100 percent valuation may offer greater equity in the redistribution of state aid to cities and towns based upon local real estate values.

Warrant - A list of items to be acted on by Town Meeting. (A treasury warrant and the assessors' warrant authorize the treasurer to pay specific bills and the tax collector to collect taxes in the amount and from the persons listed, respectively.)

Water Surplus - For water departments operating under Chapter 41 s 69B, any revenues in excess of estimated water receipts or unspent water appropriations close to a water surplus account. Water surplus may be appropriated to fund water-related general and capital expenses or to reduce water rates.

Waterways Improvement Fund - An account into which 50 percent of the proceeds of the boat excise are deposited. Use of these proceeds is limited to certain waterway expenses as outlined in Chapter 40 s 5G.

Wire Transfer - A method of moving funds from one bank to another through the use of the bank wire system or Federal Reserve System, so that funds are in transit for a minimum period of time.

Yield - The net annual percentage of income derived from an investment. The yield of a bond reflects interest rate, length of time to maturity and write-off of premium or accrual of discount. (Also referred to as "yield to maturity".)

This appendix was prepared by Donald Levitan and Meilida J. Ordway (representing her opinions and not necessarily those of the Department of Revenue) and updated by Allan Tosti.

Appendix H: Finance Committee Checklist

The following is offered as a selected compilation of issues that a Finance Committee might address in its budget deliberations. Each Finance Committee is urged to use this list as a starting point and to develop a list that fits its town.

The proposed budget, as well as other town financial considerations, are prepared and presented in a manner that permits comprehension by the voters.

The proposed and approved budget is placed in the Library as well as in Town Hall and on the town website, allowing easy voter access.

There is an established budgetary process and calendar. All units of town government follow an identical process and timetable.

All units of town government receive the same budget request package.

Financial reports are prepared on a regular calendar basis; monthly is desired but at a minimum on a quarterly basis.

There exist established financial policies regarding:

- free cash
- reserve funds
- stabilization fund (*if one exists*)
- cash management
- debt management
- investment management
- banking relations,
- etc.

An accounting chart of accounts for expenditure items exists.

The budget is considered and approved on a program/departmental basis.

Departmental budgets are on the mark, relatively speaking, in that they run on a constant basis, with neither a substantial surplus nor deficit.

All town fees and charges are realistic and "fair", cover the cost of delivering the service, and are listed in the budget request.

Records are maintained that allow comparison of actual costs to budgeted (projected) costs. These records allow for the analysis of both unit costs and performance.

All financial documentation graphics and charts are summarized narratively.

A multi-year revenue-expenditure forecast exists and is updated at least every year.

A cash management program exists and is regularly updated during the year.

In all financial documentation there is a consistency in choice, base, and use of statistics and graphics.

The property tax collection rate is higher than 95%.

The town receives its "fair share" of federal and state aid grants as compared to similar towns in the general area.

Town funds available for investment are invested at the highest rate consistent with liquidity and safety.

There is an existing inventory of fixed assets by location, age, condition, and cost of maintenance that is regularly updated.

A five year Capital Improvement Program exists that follows the criteria of the Government Finance Officers Association.

The specifications for major purchases are reviewed by experts.

All programs should be examined on a regular basis as to their continued need and service level.

All programs should be examined on a regular basis to ascertain if there is another more efficient and cost effective way of delivering the service.

Proposed budgetary increases and decreases are to be analyzed by service implication(s) rather than as objects of expenditure.

What would happen to a departmental budget if the budget were reduced:

- 5%?, or
- 10%?

What are the criteria, and the basis for choice, to evaluate programs?

How many people benefit from a program? Can they be "categorized"?

How much do other towns in the general area spend on similar programs?

The accounting system is either conforming to UMAS or is moving towards UMAS.

An annual audit is prepared, and items identified in the management letter are followed up.

There exists a job classification, salary, and benefit plans that are comprehensive and competitive as well as a multi-year personnel census.

Purchasing is closely coordinated, centralized, or performed in concert with other governmental entities.

Reserves should be maintained at no less than 5% of the general fund operating revenues.

This appendix was prepared by Donald Levitan and updated by Allan Tosti.

Appendix I: Finance Committee Resources

Committee Library

It is impossible for a professional in any endeavor to conduct business without access to appropriate data and reference material. Finance committees should develop their own libraries of town data and be aware of local and national resources for information and assistance.

Below is a suggested list of materials for the library of each town finance committee. Material produced by the Department of Revenue, Division of Local Services (DLS), may be obtained from them. Committees may obtain most other material from town offices, the Massachusetts Municipal Association (MMA), or from a given town's public library. Many publications may be obtained on various websites.

Town Documents and Information

- annual municipal audit (for last five years)
- bond prospectus
- Capital Improvement Program and capital budget
- cash flow analysis
- Cherry Sheet (for the last five years)
- finance committee report (for the last five years)
- Free Cash certification (for the last five years)
- investment policies and analysis
- property classification report
- annual report (for the last five years)
- bylaws
- town charter
- manual on town meeting, etc.
- operating and capital budgets (for the last five years), and budget forms, calendar, and instructions
- tax recapitulation data (for the last five years)
- Schedule A (for the last five years)

(*In addition, comparable information from a town of similar socio-economic and financial characteristics may be useful.*)

Materials Available from DLS

(www.mass.gov/dls)

Assessment Publications
Accounting Publications
Cherry Sheet Manual, forms and reports
Costing Municipal Services
DLS Alerts (sign up on-line)
Developing a Capital Improvements Program
Levy Limits: A Primer on Prop 2 1/2
A Guide to Financial Management for Town Officials
Informational Guideline Releases and Index
In Our Opinion
Laws Relating to Municipal Finance and Taxation
Manual for a Collector of Taxes
Manual for a Treasurer
Municipal Calendar and Fiscal Calendar
Municipal Finance Best Practices
Revenue/Expenditure Forecasting

Other Documents and Publications

Bresler, *Citizens Primer on Town Meeting*, Commonwealth of Massachusetts
Levitan, *Your Massachusetts Government*
Finance Committee Handbook, ATFC
Municipal Financial Data, Massachusetts Taxpayers Foundation
An Issuer's Guide to the Rating Process, Moody's
Municipal Finance Criteria, Standard & Poor's
Handbook for Massachusetts Selectmen, 4th Edition, MMA
State Constitution
Town Meeting Time, *A Handbook of Parliamentary Law, 3rd Edition*, Massachusetts Moderators' Association
Guide to Sound Fiscal Management for Municipalities, Pioneer Institute

The Massachusetts Department of Revenue and the Division of Local Services

The state Department of Revenue (DOR), Division of Local Services (DLS) provides technical assistance to municipal officials on a broad range of topics concerning local finance and taxation. DLS also exercises supervisory and regulatory functions under various statutory provisions. Assistance is provided through their four bureaus.

Bureau of Accounts – certifies tax rates for the towns and cities and is responsible under Proposition 2 1/2 for assuring compliance with property tax levy limits. This bureau also monitors, supervises and assists municipalities, counties and special districts in ensuring that their financial management and accounting practices comply with state statutes.

Bureau of Local Assessment – supervises property valuation and assessment as well as oversees the implementation of the Classification Statutes.

Municipal Data Management and Technical Assistance Bureau – is responsible for the distribution of local aid, operation of the Municipal Data Bank, and coordination of technical assistance.

Municipal Finance Law Bureau – is responsible for the interpretation of laws and statutes on municipal finance and taxation.

In addition, DLS publishes timely and useful publications dealing with the management of local government and provides information through the Internet at www.mass.gov/dls. These home pages offer local officials the opportunity to view or download various DLS publications and information.

Besides having its main office in Boston, DLS also maintains two field offices in Worcester and Springfield:

67 Millbrook Street
Suite 330
Worcester, MA 01608
Tel: 508-792-7300
Fax: 508-421-2310

436 Dwight Street
Room 401
Springfield, MA 01103
Tel: 413-452-3970
Fax: 413-452-3989

100 Cambridge Street, 7th floor
Boston, MA 02114
Tel: 617-626-2300
Fax: 617-626-2330

The Massachusetts Municipal Directory

The Massachusetts Municipal Association (MMA), of which the Massachusetts Association of Town Finance Committee is a constituent agency, annually provides each town and usually each select board member with *The Massachusetts Municipal Directory*. This directory provides a listing of municipal officials, including addresses, web site addresses, telephone and fax numbers. The directory encompasses:

- town and city governments;
- county governments;
- regional planning councils;
- selected state government officers;
- selected federal government offices;
- Massachusetts professional organizations;
- national professional organizations;
- state legislators by community; and
- state and federal holidays.

National Professional Organizations

The following is a partial listing of those national professional organizations that direct themselves to local government issues:

American Association of School Administrators
1615 Duke St.
Alexandria, VA 22314
(703) 528-0700

American Public Works Association
25 Massachusetts Avenue, Suite 500A
Washington, DC 20001
(202) 408-9541

American Society for Public Administration
1730 Rhode Island Avenue NW, Suite 500
Washington, DC 20036
(202) 393-7878

Government Finance Officers Association
203 N. LaSalle Street, Suite 2700
Chicago, IL 60601
(312) 977-9700

International Association of Assessing Officers
314 West 10th Street
Kansas City, MO 64105
(816) 701-8100

International City/County Management Association
777 North Capitol Street NE
Washington, DC 20002
(800) 745-8780

International Personnel Management Association
1617 Duke Street
Alexandria, VA 22314
(703) 549-7100

National Association of Towns and Townships
1901 Pennsylvania Avenue NW, Suite 700
Washington, DC 20006
(202) 331-8500

National League of Cities
600 N. Capital Street NW
Washington, DC 20001
(877) 827-2385

National School Boards Association
1680 Duke Street
Alexandria, VA 22314
(703) 838-6722


Appendix J: The Association of Town Finance Committees & Bylaws

History

The Association of Town Finance Committees (ATFC) was founded in 1934 by Danforth W. Comins, of Brookline, who served as its executive secretary from 1944 to 1959. Stuard DeBard, of Hingham, served in that role from 1960 to 1994. Since 1994, the Massachusetts Municipal Association (MMA) has provided administrative support to the ATFC.

Today the ATFC includes over 90% of towns out of the Commonwealth's 263 municipalities with town meeting as its members in good standing. The ultimate goal of the association is to have all eligible Massachusetts town finance committees as ATFC members.

Purpose

The purpose of the ATFC is to assist all finance committees in their duties. To that end, the association engages in the education and training of its members, publishes and distributes materials' including this handbook, and holds meetings and workshops for its members.

The association attempts to promote the common good and general welfare by taking positions, alone or in conjunction with other organizations, on state and federal legislation relating to municipal finances. The association strives to be non-partisan in its positions and procedure.

Governing Board

The Governing Board is made up of twelve members elected from among the ATFC membership: four officers, six directors, and two past presidents. The officers of the association are: a president, a first vice president, a second vice president and a treasurer. Both the president and first vice president serve as full members of the MMA's Board of Directors.

Many individuals have served on the ATFC Governing Board for several years, moving up from the position of director to president, and then continuing on as past president. These dedicated members deserve much of the credit for what the organization is today. A list of the most recent presidents are listed in the table below.

The Board usually meets 7 times a year in a central location or virtually to accommodate as many of the board members as possible. The annual meeting is held in the fall of each year in a location convenient to all the members. In the spring workshops on a variety of topics are hosted throughout the State.

The association is governed by its bylaws, which can be amended by a two-thirds vote of members present at the annual meeting.

Past Presidents Of The Association Of Town Finance Committees

1983	Sheldon J. Thayer	Harwichport
1984	Lewis C. Restuccia	Nahant
1985	Robert L. Ashton	Lynnfield
1986	Patricia N. Leiby	Bedford
1987	Michael D. Altfillisch	Canton
1988	Edward H. Dlott	Natick
1989	Samuel D. Streiff	Rowley
1990	Philip Bucheck	Lynnfield
1991	John E. Brennan	Canton
1992	Michael J. O'Sullivan	Lexington
1993	Marilyn H. Browne	Plympton
1994	John J. Kent	Easton
1995	Allan Tosti	Arlington
1996	Nelson A. Valverde	West Newbury
1997	Thomas Brady	Wrentham
1998	John Tuffy	Duxbury
1999	Paul Lapointe	Lexington
2000	John Sanguinet	Plymouth
2001	June Michaels	Rockport
2002	Heidi Churchill	Easton
2003	Charles Foskett	Arlington
2004	Paul Tsatsos	Southwick
2005	Allan Tosti	Arlington
2006	Paul Joyce	Dedham
2007	Robert Hicks	Easton
2008	Cinder McNerney	Swampscott
2009-10	Pat Brusch	Belmont
2011	Kim Roy	Halifax
2012-13	Joanne Marden	Andover
2014	Jennifer Gonzalez	Holbrook
2015	Mary McBride	Billerica
2016-18	Ira Miller	Sharon
2019-21	Brian Boyle	Bolton

Association of Town Finance Committees Bylaws

Revised November 2009

ARTICLE I

Name

The name of this voluntary non-profit association shall be "Association of Town Finance Committees," herein called the "Association."

ARTICLE II

Purposes

The purpose of the Association shall be to assist all finance committees in their duties. The Association shall engage in the education of members of finance and capital budget committees, however named, of municipalities in Massachusetts, shall publish and distribute materials, and shall hold meetings and workshops for its members. It shall promote the common good and general welfare by taking positions on state and federal legislation relating to municipal finances and may also do this in conjunction with other organizations. The Association shall be non-partisan in its attitudes and procedures and shall not discriminate with regard to race, color, creed, national origin, disability, sex or age.

ARTICLE III

The Governing Board (the "Board) shall be made up of twelve members as follows: four elected officers, six directors, two past presidents. The officers shall consist of:

A. President who shall preside at all meetings of the Association and execute any documents required by the bylaws or the acts of the Association;

B. First Vice President;

C. Second Vice President;

D. Treasurer.

Either the First Vice President or the Second Vice President shall assist the President and preside in his/her absence. The Board shall meet at the call of the President or any two members of the Board. The President shall appoint a nominating committee. The Board shall request an audit of the Treasurer's books as they deem necessary and may make recommendations to the annual meeting for changes in the constitution and by-laws or work of the Association. Each Board member shall be at the time of his or her election a member of a capital or finance committee and taking into account maximum geographic representation. The President shall not be eligible for re-election to a third consecutive term. The Board shall be elected at the Annual Meeting for the term of one year to commence on the succeeding January 1. They shall fill any vacancy in their number for the unexpired term.

Board members who are no longer serving on their finance or capital budget committee shall be required to resign from the Board. However, such resignation shall not take effect until the end of their current term. Past presidents may continue to serve on the Board regardless of his or her status as a member of a local finance or capital planning committee. The Board may ask a member to step down from his or her position due to lack of attendance at Board meetings.

The Treasurer shall furnish such bond as the Board may require. The Board and employees shall be entitled to reimbursement for out-of-pocket expenses under such policies as determined by the Board.

ARTICLE IV

The finance committee, or the select board, when acting as such, of every town in Massachusetts shall be a member for each year in which its town pays dues.

Capital outlay or long-range financial planning committees, which are not subcommittees of finance committees, shall be eligible for membership on payment of separate dues.

Members of committees in good standing who are present at any scheduled meeting shall be entitled to one vote for each such individual.

Other persons may be elected Honorary Members by the Board. Honorary members shall not vote or hold office and shall be exempt from paying dues.

ARTICLE V

Dues

Dues for each fiscal year shall be established by the Board at its first regular meeting following the Annual Meeting. The fixed amount shall be prorated among the different municipalities according to the following population categories herein described, rounded to the nearest dollar. In addition, the Board shall determine separate dues for capital committees.

Dues shall be billed July 1 in each year for the fiscal year starting on that date. Unless dues are paid on, or a firm agreement has been made with the ATFC by December 1 of each year, a town will be suspended from membership. The fiscal year shall end June 30.

ARTICLE VI

Office

The Association staff shall conduct the routine activities of the Association, and shall furnish such administrative services as assigned by the Board.

ARTICLE VII

Meetings

There shall be such meetings as the Board shall determine. Meetings of the Divisions of the Association shall be held at such times as determined by their respective officers. A quorum at Board meetings shall consist of five members of the Board. No action shall be taken by the Board without a quorum. The Annual Meeting shall be held in the fall of each year at such time and place as determined by the Board.

ARTICLE VIII

Nominations

In addition to the list to be submitted by the Board, other members may be nominated for any office upon the receipt by the Association staff at least five days before the Annual Meeting a nomination signed by individuals from three or more member towns.

ARTICLE IX

Amendments

This Constitution and Bylaws of the Association may be amended by a two-thirds vote of members present at the Annual Meeting.

Appendix K: Current Contributors

Allan Tosti, member of the Arlington Finance Committee and Treasurer of the ATFC

Melinda R. Tarsi, Associate Professor, Political Science Department, Bridgewater State University

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Richard Carmignani, Jr., Treasurer/Collector, Dudley

Justin Casanova-Davis, Acting Finance Director, Brookline

Colby Cousins, IT Director, Danvers

Brad Dzierzak, IT Director, Bridgewater

John Gannon, Esq., Attorney, Division of Local Services

Douglas W. Heim, Esq., Town Counsel, Arlington

Patrick Lawlor, Assistant Town Manager, Andover

Mark Milne, Finance Director, Barnstable

Melinda J. Ordway, Senior Program Manager and Financial Analyst, Municipal Data Management and Technical Assistance Bureau, DLS

Richard Manley, Esq., Partner, Locke Lord LLP

Cinder McNerney, Managing Director, Hilltop Securities and member of the Swampscott Finance Committee

Robert O'Donnell, Director of School Finance, Department of Elementary and Secondary Education

James E. Powers, Partner, Powers and Sullivan

John Robertson, Legislative Director, Massachusetts Municipal Association (retired)

Dan Sherman, CEO, Sherman Actuarial Services, LLC, member Wakefield Finance Committee

Past Contributors

Donald Levitan, original editor, is a former college professor. He is the author of Your Massachusetts Government.

Catherine S. Bromberg, editor, is Senior Writer and Editor at New England Medical Center and a freelance writer and original editor.

Harvey Beth, Finance Director, Brookline (*retired*)

Elizabeth Bostwick, Esq.

Marilyn Browne, Chief, Bureau of Assessing, Massachusetts Division of Local Services (retired)

Alice Carlozzi, Finance Committee, Amherst

Paul C. Casey, State Representative, Massachusetts General Court

Jane L. Chew, Town Clerk, Burlington

Stephen E. Cirillo, Finance Director, Brookline (retired)

Sheldon S. Cohen, independent IT consultant

Kathleen Colleary, Esq., Chief, Mass. Finance Law Bureau, Massachusetts Division of Local Services (retired)

Sean Cronin, Sr. Deputy Commissioner, Division of Local Services

Michael Daley, President, Financial Advisory Associates, Inc. (retired)

Edward Dlott, former Director of Municipal Finance, BankBoston (deceased)

Daniel F. Donahue, Esq., DeFazio and Donahue, Northampton

Christopher J. Dostoomian, St. John's Preparatory School, Danvers

Mary Ellen Norman Dunn, Business Manager, Natick Public Schools

Matthew G. Feher, Esq., Attorney, KP Law

Kevin G. Gookin, Municipal Management Consultant

Timothy Higgins, Town Administrator, Lincoln

Frederick Kingsley, Chief, Municipal Data Management and Technical Assistance Bureau, DLS

Melvin A. Kleckner, Town Administrator, Brookline

Beth Klepeis, Finance Director, Reading (retired)

Len Kopelman, Kopelman & Paige

Juliana deHaan Rice, Esq., former Town Counsel, Arlington

Mark Levy, former member, Finance Committee, Brookline

Anthony T. Logalbo, Finance Director, Concord (retired)

Anthony A. McMahon, Finance Committee, Barnstable and Treasurer, Dennis Water District

Donna A. Madden, Assistant Treasurer-Collector, Lincoln

Jennifer Magee, former Staff Associate, Association of Town Finance Committees

Katie S. McCue, Administration, Finance and Operations Director, Massachusetts Municipal Association

Richard Mountouri, Town Manager, Tewksbury

Mark. E. Morse, Esq., President, MMA Consulting Group

Melinda J. Ordway, Senior Financial Analyst, Massachusetts Division of Local Services

Marc R. Pacheco, State Senator, Massachusetts General Court

John J. Ryan, Finance Director, Lexington (retired)

James F. Russell, CPA, former partner, Arthur Anderson and Co.

Robert Spongberg, Executive Director, ARC of Cape Cod

Anthony Torissi, Finance Director, Andover (retired)

John Tuffy, Superintendent, Silver Lake RSD (retired)

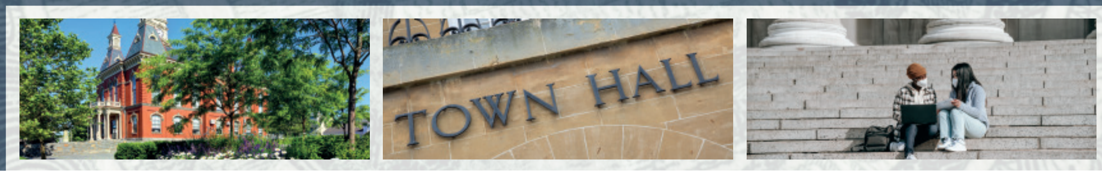
Kay M. Upham, Project Manager, Massachusetts Division of Local Services

Carl F. Valente, Town Manager, Lexington (retired)

Maureen G. Valente, Town Manager, Sudbury (retired)

Marc Waldman, Treasurer/Collector, Wellesley (retired)

Robert J. Wright, Director of Analysis, Finance and Budget and Chief Medical Examiner, Massachusetts Department of Public Safety



Appendix L: Sample Cherry Sheet

C.S. 1-ER Commonwealth of Massachusetts Department of Revenue FY2017

NOTICE TO ASSESSORS OF ESTIMATED RECEIPTS

General Laws, Chapter 58, Section 25A

Abington

A. EDUCATION:	
Distributions and Reimbursements:	
Chapter 70	7,579,849
School Transportation	0
Charter Tuition Reimbursement	35,720
Smart Growth	0
Offset Items – Reserve for Direct Expenditure:	
School Choice Receiving Tuition	5,000
Sub-Total, All Education Items:	**7,620,569**
B. GENERAL GOVERNMENT:	
Distributions and Reimbursements:	
Unrestricted General Government Aid	1,891,429
Local Share of Racing Taxes	0
Regional Public Libraries	0
Urban Revitalization	0
Veterans Benefits	88,097
Exemp: VBS and Elderly	95,411
State Owned Land	117,819
Offset Item - Reserve for Direct Expenditure:	
Public Libraries	20,390
Sub-Total, All General Government:	**2,213,146**
C. TOTAL ESTIMATED RECEIPTS:	**9,833,715**

C.S. 1-EC Commonwealth of Massachusetts Department of Revenue FY2017

NOTICE TO ASSESSORS OF ESTIMATED CHARGES

General Laws, Chapter 59, Section 21

Abington

A. COUNTY ASSESSMENTS:	
County Tax	38,882
Suffolk County Retirement	0
Essex County Reg Comm Center	0
Sub-Total, County Assessments:	**38,882**
B. STATE ASSESSMENTS AND CHARGES:	
Retired Employees Health Insurance	0
Retired Teachers Health Insurance	0
Mosquito Control Projects	35,449
Air Pollution	4,604
Metropolitan Area Planning Council	0
Old Colony Planning Council	5,790
RMV Non-Renewal Surcharge	27,520
Sub-Total, State Assessments:	**73,363**
C. TRANSPORTATION AUTHORITIES:	
MBTA	81,186
Boston Metro. Transit District	0
Regional Transit	25,172
Sub-Total, Transportation Assessments:	**106,358**
D. ANNUAL CHARGES AGAINST RECEIPTS:	
Special Education	0
STRAP Repayments	0
Multi-Year Repayment	0
Sub-Total, Annual Charges Against Receipts:	**0**
E. TUITION ASSESSMENTS:	
School Choice Sending Tuition	201,808
Charter School Sending Tuition	496,553
Sub-Total, Tuition Assessments:	**698,361**
F. TOTAL ESTIMATED CHARGES:	**916,964**

Appendix M: Sample Tax Rate Recapitulation

MASSACHUSETTS DEPARTMENT OF REVENUE
DIVISION OF LOCAL SERVICES
BUREAU OF ACCOUNTS

Abington
City / Town / District

TAX RATE RECAPITULATION
Fiscal Year 2017

I.	**TAX RATE SUMMARY**	
Ia.	Total amount to be raised (from page 2, IIe)	$ 56,678,607.46
Ib.	Total estimated receipts and other revenue sources (from page 2, IIIe)	22,428,749.00
Ic.	Tax Levy (Ia minus Ib)	$ 34,249,858.46
Id.	Distribution of Tax Rates and levies	

CLASS	(b) Levy percentage (from LA5)	(c) Ic above times each percent in col (b)	(d) Valuation by class (from LA-5)	(e) Tax Rates (c) / (d) x 1000	(f) Levy by class (d) x (e) / 1000
Residential	86.9238	29,771,278.47	1,622,413,621.00	18.35	29,771,289.95
Net of Exempt					
Open Space	0.0000	0.00	0.00	0.00	0.00
Commercial	10.0299	3,435,226.55	187,205,279.00	18.35	3,435,216.87
Net of Exempt					
Industrial	0.9610	329,141.14	17,936,000.00	18.35	329,125.60
SUBTOTAL	***97.9147***		***1,827,554,900.00***		***33,535,632.42***
Personal	2.0853	714,212.30	38,922,400.00	18.35	714,226.04
TOTAL	***100.0000***		***1,866,477,300.00***		***34,249,858.46***

MUST EQUAL 1C

Abington
City / Town / District

TAX RATE RECAPITULATION
Fiscal Year 2017

II.	**Amounts to be raised**		
IIa.	Appropriations (col.(b) through col.(g) from page 4)		***55,364,981.00***
IIb.	Other amounts to be raised		
	1. Amounts certified for tax title purposes	***0.00***	
	2. Debt and interest charges not included on page 4	0.00	
	3. Final court judgements	0.00	
	4. Total overlay deficits of prior years	0.00	
	5. Total cherry sheet offsets (see cherry sheet 1-ER)	25,390.00	
	6. Revenue deficits	0.00	
	7. Offset receipts deficits Ch. 44, Sec. 53E	0.00	
	8. CPA other unappropriated/unreserved	***0.00***	
	9. Snow and ice deficit Ch. 44, Sec. 31D	0.00	
	10. Other (specify on separate letter)	0.00	
	TOTAL IIb (Total lines 1 through 10)		***25,390.00***
IIc.	State and county cherry sheet charges (C.S. 1-EC)		916,964.00
IId.	Allowance for abatements and exemptions (overlay)		371,272.46
IIe.	Total amount to be raised (Total IIa through IId)		***56,678,607.46***
III.	**Estimated receipts and other revenue sources**		
IIIa.	Estimated receipts - State		
	1. Cherry sheet estimated receipts (C.S. 1-ER Total)	9,833,715.00	
	2. Massachusetts school building authority payments	0.00	
	TOTAL IIIa		***9,833,715.00***
IIIb.	Estimated receipts - Local		
	1. Local receipts not allocated (page 3, col (b) Line 24)	***5,659,116.00***	
	2. Offset Receipts (Schedule A-1)	***0.00***	
	3. Enterprise Funds (Schedule A-2)	***3,767,595.00***	
	4. Community Preservation Funds (See Schedule A-4)	***0.00***	
	TOTAL IIIb		***9,426,711.00***
IIIc.	Revenue sources appropriated for particular purposes		
	1. Free cash (page 4, col (c))	***804,783.00***	
	2. Other available funds (page 4, col (d))	***2,363,540.00***	
	TOTAL IIIc		***3,168,323.00***
IIId.	Other revenue sources appropriated specifically to reduce the tax rate		
	1a. Free cash..appropriated on or before June 30, 2016	0.00	
	1b. Free cash..appropriated on or after July 1, 2016	0.00	
	2. Municipal light source	0.00	
	3. Other source :	0.00	
	TOTAL IIId		***0.00***
IIIe.	Total estimated receipts and other revenue sources (Total IIIa through IIId)		***22,428,749.00***
IV.	**Summary of total amount to be raised and total receipts from all sources**		
	a. Total amount to be raised (from IIe)		***56,678,607.46***
	b. Total estimated receipts and other revenue sources (from IIIe)	***22,428,749.00***	
	c. Total real and personal property tax levy (from Ic)	***34,249,858.46***	
	d. Total receipts from all sources (total IVb plus IVc)		***56,678,607.46***

NOTE : The information was Approved on 12/2/2016

MASSACHUSETTS DEPARTMENT OF REVENUE
DIVISION OF LOCAL SERVICES
BUREAU OF ACCOUNTS

Abington
City / Town / District

TAX RATE RECAPITULATION

Fiscal Year 2017

LOCAL RECEIPTS NOT ALLOCATED *

		Receipt Type Description	(a) Actual Receipts Fiscal 2016	(b) Estimated Receipts Fiscal 2017
==>	1.	MOTOR VEHICLE EXCISE	1,829,948.00	1,823,000.00
	2.	OTHER EXCISE		
==>		a.Meals	296,118.00	273,000.00
==>		b.Room	0.00	0.00
==>		c.Other	0.00	0.00
==>	3.	PENALTIES AND INTEREST ON TAXES AND EXCISES	236,521.00	223,021.00
==>	4.	PAYMENTS IN LIEU OF TAXES	0.00	0.00
	5.	CHARGES FOR SERVICES - WATER	2,788,104.00	2,660,104.00
	6.	CHARGES FOR SERVICES - SEWER	0.00	0.00
	7.	CHARGES FOR SERVICES - HOSPITAL	0.00	0.00
	8.	CHARGES FOR SERVICES - SOLID WASTE FEES	0.00	0.00
	9.	OTHER CHARGES FOR SERVICES	0.00	0.00
	10.	FEES	92,338.00	90,000.00
	11.	RENTALS	0.00	0.00
	12.	DEPARTMENTAL REVENUE - SCHOOLS	0.00	0.00
	13.	DEPARTMENTAL REVENUE - LIBRARIES	0.00	0.00
	14.	DEPARTMENTAL REVENUE - CEMETERIES	0.00	0.00
	15.	DEPARTMENTAL REVENUE - RECREATION	0.00	0.00
	16.	OTHER DEPARTMENTAL REVENUE	0.00	0.00
	17.	LICENSES AND PERMITS	384,361.00	361,991.00
	18.	SPECIAL ASSESSMENTS	0.00	0.00
==>	19.	FINES AND FORFEITS	27,426.00	25,000.00
==>	20.	INVESTMENT INCOME	168,747.00	63,000.00
==>	21.	MEDICAID REIMBURSEMENT	154,382.00	90,000.00
==>	22.	MISCELLANEOUS RECURRING (PLEASE SPECIFY)	40,812.00	50,000.00
	23.	MISCELLANEOUS NON-RECURRING (PLEASE SPECIFY)	204,118.00	0.00
	24.	**Totals**	***6,222,875.00***	***5,659,116.00***

I hereby certify that the actual receipts as shown in column (a) are, to the best of my knowledge correct and complete, and I further certify that I have examined the entries made on page 4 of the Fiscal 2017 tax rate recapitulation form by the City, Town or District Clerk and hereby acknowledge that such entries correctly reflect the appropriations made and the sources from which such appropriations are to be met.

Accounting Officer

I hereby certify that the actual receipts as shown in column (a) are, to the best of my knowledge correct and complete, and I further certify that I have examined the entries made on page 4 of the above-indicated fiscal year tax rate recapitulation form by the City / Town / District Clerk and hereby acknowledge that such entries correctly reflect the appropriations made and the sources from which such appropriations are to be met.

Suzanne Moquin, Town Accountant , Abington , smoquin@abingtonma.gov 781-982-2100 | 11/3/2016 9:19 AM

Comment:

* Do not include receipts in columns (a) or (b) that were voted by the City / Town / District Council or Town Meeting as offset receipts on Schedule A-1, enterprise funds on Schedule A-2, or revolving funds on Schedule A-3. Written documentation should be submitted to support increases / decreases of estimated receipts to actual receipts.

==> Written documentation should be submitted to support increases/ decreases of FY 2017 estimated receipts to FY 2016 estimated receipts to be used in calculating the Municipal Revenue Growth Factor (MRGF).

NOTE : The information was Approved on 12/2/2016

MASSACHUSETTS DEPARTMENT OF REVENUE
DIVISION OF LOCAL SERVICES
BUREAU OF ACCOUNTS

Abington
City / Town / District

TAX RATE RECAPITULATION
Fiscal Year 2017

City/Town Council or Town Meeting Dates	FY*	(a) Total Appropriations Of Each Meeting	(b) ** From Raise and Appropriate	(c) From Free Cash (See B-1)	(d) From Other Available Funds (See B-2)	(e) From Offset Receipts (See A-1)	(f) From Enterprise Funds (See A-2)	(g) From Community Preservation Funds (See A-4)	(h) *** Revolving, Funds (See A-3)	(i) Borrowing Authorization (Other)
		APPROPRIATIONS							AUTHORIZATIONS MEMO ONLY	
06/06/2016	2017	52,501,753.00	48,861,055.00	165,995.00	139,100.00	0.00	3,335,603.00	0.00	239,500.00	575,000.00
06/16/2016	2016	2,863,228.00	0.00	638,788.00	2,224,440.00	0.00	0.00	0.00	0.00	0.00
	Total	***55,364,981.00***	***48,861,055.00***	***804,783.00***	***2,363,540.00***	***0.00***	***3,335,603.00***	***0.00***		

* Enter the fiscal year to which the appropriation relates, i.e., fiscal year 2016 or fiscal 2017.
** Appropriations included in column (b) must not be reduced by local receipts or any other funding source.
Appropriations must be entered gross to avoid a duplication in the use of estimated or other sources of receipts.
*** Include only revolving funds pursuant to Chapter 44, Section 53 E 1/2.